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SUBMISSION

OF

CANADIAN PLUMBING AND MECHANICAL CONTRACTORS ASSOCIATION

583 CHURCH ST., TORONTO, ONTARIO

Mr. Kenneth L. Carter,

April 1st, 1963.

Chairman,

Royal Commission on Taxation,

P.O. Box 466,

Ottawa, Ontario.

Sirs:

This Brief is respectfully submitted on behalf of the member Companies of the Canadian Plumbing and Mechanical Contractors Association who sell and install approximately 90% of all the plumbing, heating, air-conditioning and ventilating materials installed in Canada and whose approximately 1200 member firms from coast to coast employ over 95% of all organized labour in these Trades in the Dominion.

Among the objectives of this Association, created by Federal Charter in 1942, is the responsibility to make representation with respect to Federal, Provincial and Municipal legislation for the improvement of plumbing and mechanical trades and safety and health legislation.

PREAMBLE -- It is noted that the Commission has been enjoined to study the economic effects and structural deficiencies of the whole of the Federal tax structure and make recommendations for changes designed to remedy



1 these faults. It is noted, too, that the Commission has
2 organized its research program into two main areas
3 (1) Economic Studies and (2) Tax Structure Studies. This
4 Brief will respectfully observe on the second portion of
5 this program, bearing largely on the experience of
6 members of this Association in the field of Construction.

7
8 1. Computation of Income Under Long Term Contracts --

9 This Association had some part to play in the well known
10 M.N.R. vs John Colford Contracting Co. Ltd. case
11 conducted by one of its member firms John Colford Ltd.
12 in relation to work done in the city of Montreal. Prior
13 to the decision handed down in that case all billable
14 work done in a given year regardless of whether it had
15 been paid for or not, was to be taken into income for
16 taxation purposes. The Colford Case decision ruled that
17 holdbacks should not be considered as income until the
18 final certificate has been issued by the architect or
19 consulting engineer. This has the practical effect of
20 establishing the completed contract method since the
21 holdback contains in the vast majority of cases, any
22 profit to be earned on the contract.

23 In cases of this nature it is respectfully
24 suggested that the Act be amended to permit (a) the tax-
25 payer to have the option of using the "percentage
26 completion" method of accounting, such election being
27 exerciseable "contract by contract" as is the current
28 situation in the United States of America, (b) legalizing
29 the "completed contract" method of reporting income.
30 Secondly it is recommended that, where property is sold



1 by a contractor on a mortgage, installment sale method
2 of discounting be permitted, for example --

	<u>Taxable Income</u>	<u>Sale Price</u>
3		
4 Sold for		\$15,000.00
5 Cost		<u>13,000.00</u>
6 Cash down payment of		2,000.00
7 \$1,500.00 - $2/15 \times \$1,500.00$	200.00	
8 First year Principal paid		
9 on mortgage \$150.00		
10 $2/15 \times \$150.00$ etc	20.00	
11 Interest to be added		

12 If the Contractor sells the mortgage, he should
13 be taxable at his profit ratio. The principle here is
14 that the forced credit sale (mortgage) bears cash taxes,
15 which is a very heavy burden on the cash flow of the
16 builder when he has to wait for the cash because of the
17 exigencies forcing him to sell without outside mortgage
18 money.

19

20 2. (a) Capital Cost Allowance -- It is strongly
21 recommended that the rates of capital cost allowance
22 should be reviewed so that tax incentive is available un-
23 iformly to all taxpayers.

24 Under present regulations the taxpayer is caught
25 in the position he happens to be in at the time determining
26 the base for his ability to claim. It is suggested that
27 it would be desirable to more closely related capital
28 cost allowance to the recovery of money expenditures not
29 yet permitted for tax, with less regard to the assumed
30 useful life of the asset.



1 It is also recommended that, for capital cost
2 allowance purposes, consideration be given in particular
3 to removing the inclusion of all building services in the
4 classification of the building. Examples are elevators,
5 sprinkler systems, electric wiring, transformers,
6 plumbing, heating, airconditioning. None of these items
7 are dissimilar to "machinery and equipment" which bears
8 a 20% rate of depreciation, but, because they are listed
9 as "integrally a part of the building", they bear only
10 5% or 10% depreciation depending on the building.

11 Sprinkler systems, for example, although they do reduce
12 fire insurance rates, take so long to recover in terms
13 of cost that, tax wise, the owner is better off to save
14 his capital and pay the extra insurance premiums as he
15 goes. It is suggested that the present depreciation
16 regulations definitely discourage building improvements
17 because of the low recovery rate for tax purposes.

18 Specifically, therefore, it is recommended, without
19 prejudice to (a) above, that services within the building
20 should be evaluated in terms of their useful life, and
21 not in terms of the building itself.

22 (b) Depreciation -- It is noted that present legislation
23 discriminates in the rate of depreciation of frame
24 buildings as contracted with concrete and steel structures.
25 Steel and Concrete structures carry half the depreciation
26 allowance that a frame structure does. It is suggested
27 that, if encouragement is to be given to owners and
28 investors to build better buildings, and buildings that
29 provide a better fire risk and hence are less costly to
30 communities which have to protect them from fire,



1 consideration should be given to accelerated depreciation
2 for concrete and steel structures.

3
4 3. Sales Tax - A/c and Tax Refunds -- It is suggested
5 that the present differentiations for federal sales tax
6 purposes between airconditioning necessary for production
7 (exempt) and airconditioning for the comfort of the staff,
8 clients, patients or customers, (taxable) is ludicrous.
9 End use, based upon proven necessity under a bill of
10 goods for a sales tax exempt job, should provide an
11 immediate exemption rather than the present costly and
12 cumbersome necessity of paying tax and then applying for
13 a refund. More generally, it is recommended that tax
14 refunds, where necessary, should be immediate, subject to
15 sales tax audit and interest payments if made in excess
16 of entitlement. The taxpayer should not be required to
17 wait for his money until an audit by the Department is
18 convenient.

19
20 4. Taxation -- Employees Fringe Benefits -- It is
21 recommended that the regulations be consolidated in
22 respect to elements of the employee's remuneration with-
23 held and vested in him in any kind of plan (deferred
24 profit sharing, pension, welfare, supplementary unemploy-
25 ment benefit etc.). It is suggested that these should
26 be free of tax to the employee until such time as he
27 actually withdraws cash from it -- and allowable as a
28 deduction to the employer.

29 To avoid abuse, some restriction probably
30 expressed as a percentage of the employee's realized



1 income, should be established, and, it is suggested, that
2 this percentage should be scaled -- i.e.

3 0 to \$3,000.00 per annum - 20%

4 \$3,000.00 to \$6,000.00 per annum - 15% etc.

5 The inclusion of all such plans, approved only as to bona
6 fides, under one comprehensive tax provision would greatly
7 reduce the present cumbersome administrative procedures
8 and encourage appropriate provision for future employee
9 welfare procedures.

10 Present provisions for taxability of the employee
11 upon receipts withdrawn from a plan based on the average
12 of the three prior years tax rates etc. should, it is
13 suggested, be left in, but modified to permit such
14 benefits only where withdrawal is due to discharge or
15 death. Under the present system it is felt that employees
16 might be encouraged to change jobs merely in order to
17 lay their hands on built-up credits under the tax privi-
18 lege of three year's averaging. The employee should be
19 permitted the option, if changing his job, to avoid
20 taxation on accumulated benefits in the current year by
21 leaving all or some benefits in the existing plan, or if
22 Provincial machinery exists, allowing it to be transferred
23 and deferred to some central plan.

24 Respectfully submitted

25 CANADIAN PLUMBING AND MECHANICAL CONTRACTORS
26 ASSOCIATION

27 PER R. Davidson, General Manager.
28
29
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THE ROYAL COMMISSION ON TAXATION

Mr. Kenneth LeM. Carter, F.C.A., Chairman

Brief

THE ALUMNI GROUP

SCHOOL OF ECONOMIC SCIENCE

Toronto, Ontario.

May 14th, 1963



SUBMISSION BY THE ALUMNI GROUP OF THE SCHOOL OF
ECONOMIC SCIENCE TO THE ROYAL COMMISSION ON TAXATION

To Mr. Kenneth LeM. Carter, F.C.A., Chairman
of Royal Commission on Taxation and to the members of
the Commission:-

This brief is presented on behalf of the
ALUMNI GROUP of the School of Economic Science.
The School of Economic Science is a non-profit,
non-sectarian and non-political institute
chartered by the Province of Ontario. It is a
member of the Canadian Association for Adult
Education. Extensions and sister schools are
active in many countries of the world including
the United States, the United Kingdom, Denmark,
Spain, the Phillipines, Australia and New
Zealand. The purpose of the School is to
provide a forum for detached and scientific
inquiry into basic principles or political
economy as they affect the citizen and the
political institutions of society.

Membership in the ALUMNI GROUP is restrict-
ed to those who have completed a comprehensive
study of the Science of Political Economy and
received a diploma for the effort.

The ALUMNI GROUP believes that the price
of freedom is continual vigilance. If social
or economic injustices exist in our society,
the very knowledge of these injustices demand
action. Since members come from all walks of



life, and form a good cross section of society in general, we feel that we speak with the authority of an informed citizenry. We embrace no special interests save those of sound government and basic human rights.

It is with this impartial point of view that we respectfully submit this brief.

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Peter Van Meggelen	Wm. T. Phillips
John Cameron	J.W. Ramsay, Chairman
Taxation Committee, The Alumni Group, 1318 Daimler Road, Clarkson, Ontario.	



PART I

INTRODUCTION

It is the intention of this brief to show that the problems in the Canadian economy of unemployment, inflation, recessions, foreign control of industry, tax evasion, high cost of living, complexity of tax regulations and many others are in reality only manifestations of one problem. We intend to show that a sinew of steel, links all of these symptoms in such a way that a tug on the wire in one area automatically triggers off repercussions in all other areas. (1)

THE PROBLEM

This then is the basic problem:

The failure of government to stay out of the field of enterprise that is best left to the unrestricted and automatic functioning of private citizens and legitimate corporate bodies; and the failure of the government to husband and administer those assets that, by their very nature, are held in trust for Canadians as a whole. (2)

Trade and commerce can best be carried on by the unrestricted interactions of individuals operating in a free market. This requires no governmental planning past the laying down of ground rules to protect the economic rights of individuals from the encroachment of other individuals or the state. Government usurps these rights by competing in business or assisting privileged groups to earn a living at the expense of all other citizens. In a truly free economy no group can call itself "the backbone of the nation" as every segment is interdependent for its goods and services on every other segment. There-



fore, no segment deserves a privilege, by special governmental consideration, that is denied to any other segment. It is both morally and legally unjust. (3)

The failure of the government to protect the natural rights of property held in common by society, by collecting an adequate tax or rental for the use of this property, has led to the appropriation of these common rights by private individuals. This, in effect, means that governmental bodies have given away, or allowed to be taken away, the very assets of society, they are sworn to protect. It means that control of these assets now rests in the hands of a small number of individuals within Canada, and in foreign countries, that should rest only in the hands of our elected representatives. (4)

Render to society that which belongs to society, and to the individual that which truly belongs to the individual. (5)

THE SOLUTION

The majority of taxes levied at the three levels of government are a tax on production and as such lead to slow-downs, cut-backs and in some cases cessation of production. This results in unemployment, recessions and a need for still higher taxes to remedy the problems so created. (6)

At the same time, existing legislation allows private individuals to use the assets of the community at far less than their true market rental value. (7)

The function of government, therefore, is to collect only that which justly belongs to the community and expend only that which will benefit as



1 a whole. (8)

2 The Canadian citizen is now at the breaking
3 point where he pays taxes, taxes on profits and taxes
4 on taxes on profit. He is so shackled by taxes from the
5 cradle to the grave, and beyond, that he has virtually
6 become an employee of the state for 3 hours and 12 min-
7 utes of every working day. We now face the immediate
8 decision in Canada of whether the state is created to
9 serve man or man is created to serve the state. Canadians
10 must be free to pursue their private and personal way of
11 life without being hampered by governmental restrictions.
12 A citizens only obligation is to share in the cost
13 of community services in direct proportion to the bene-
14 fits he receives. No group should enjoy privileges by
15 being exempt from the payment of their just share or by
16 being given a share from the public fund that they have
17 not earned. (9)

18 Therefore, the solution is this:

19 ONE - The government must vacate the field of private
20 business and remove all taxes and restrictions that
21 hamper the free flow of goods.

22 TWO - The government must take measures to immediately
23 collect the full economic rent produced by the assets of
24 society and use this fund to run the common business of
25 society. (10)

26 In the following pages we will present arguments
27 and information to establish these measures as the only
28 just and permanent basis for any change in the tax
29 structure of Canada. We will show that what is needed is
30 a reduction in the number of arbitrary taxes and a return



1 return to a simplicity of taxes based on sound and
2 scientific principles. These principles will guarantee
3 the rights of the individual and the rights of society.

4 (11)

5 In the remarks of Commissioner J. Harvey Perry
6 at the Canadian Tax Foundation's Annual Conference on
7 Nov. 26, 1962, he said: "It would appear from the
8 great amount of unhappy noise he is making that the Canad-
9 ian taxpayer is badly in need of some form of succor,
10 but before attempting to prescribe, the Royal Commission
11 must make up its mind whether the condition calls for
12 surgery, medicine or phsyiatric treatment. The more prec-
13 isely the symptoms are described the less danger of a
14 wrong diagnosis".

15 The ALUMNI GROUP is in full agreement with
16 this line of reasoning. It indicates that the present
17 commission is prepared to treat the malady at depth rather
18 than trying to apply hot poultices and cold compresses,
19 to the exterior of the body politic, in hopes that
20 the swelling will temporarily disappear. Out of sight,
21 out of mind, simply means that the internal cancer will
22 erupt at some other place in some other form. (13)



PART II

GENERAL COMMENTS

Since the general aim and purpose of a Royal Commission is to get the correct answers we must proceed by first asking the correct questions. The value of a skillful lawyer comes not from the literary qualities of the witnesses' replies but from the rapier thrust of precise questions that demand precise answers. Only then can the judge and jury render a just verdict. (14)

We propose in the beginning to ask more questions than we answer. We will indicate the answers in summation and also indicate further areas that the Commission may wish to carry out. (15)

FOUR KINDS OF TAXES

All taxes in Canada can be placed in four general categories. The effects on the economy of raising, lowering or abolishing all of those of the same category will be shown. (16)

1) Payment for Value Received

This includes all taxes, levies and licenses where the payee receives some direct benefit from the use of the facilities or goods belonging to society as a whole and would bear a direct ratio to the amount paid.

Examples: Local Improvement tax, Water rate, Land tax, Gasoline tax, Toll bridge fee. (17)

2) Payment for Protection and Insurance

This would include all services that the taxpayer does not benefit from directly except in times of emergency. All taxes in this category are in the form



1 of "premiums" to pay for contingencies that cannot be
2 covered by private contract between individuals but must
3 consist of a contract between the individual and the
4 rest of society.

5 Examples Police and fire protection, national defence,
6 criminal and civil law courts, etc. (18)

7 3) Payment by Ability to Pay

8 This would include all taxes that government takes
9 from the individual or corporate group in a direct and
10 increasing ratio to the amount earned but gives no corres-
11 ponding increase in benefits received.

12 Examples: Income tax, corporation tax, succession duties
13 and inheritance tax. (19)

14 4) Payment by Ability to Purchase

15 This is a levy on the cost of production and
16 does not confer any direct or measurable benefit
17 to the taxpayer.

18 Examples: Federal sales tax, provincial sales tax,
19 liquor and tobacco tax, tariffs and property tax (in
20 installments). (20)

21 THE RIGHTS OF MAN AND THE RIGHTS OF SOCIETY

22 The basic principle of human freedom of the
23 individual, living in society, is that what is produced
24 by the legitimate effort of the individual belongs to
25 that individual and what is produced by society as a whole
26 belongs to that society. What belongs to society may be
27 used by the individual upon an equitable payment of rent
28 or tax to society. What belongs to the individual then
29 cannot justly be expropriated for the use of society with-
30 out recompense, and what belongs to society cannot justly



1 be expropriated for the use of the individual without
2 recompense. (21)

3 This basic principle of democracy guarantees
4 the rights of the individual in society and the rights
5 of society from the individual. (22)

6 HOW SOME TAXES INTERFERE WITH THESE RIGHTS

7 In the light of the preceding paragraphs let us
8 now examine the Four Kinds of Taxes. (23)

9 1) Effects of Payment for Value Received Tax

10 This is the most just type of taxation because
11 it clearly measures the benefit that the taxpayer receives
12 from the use of a community asset. It also protects the
13 rights of the community to receive a just rental fee.
14 The simplest example would be the payment of a fare for the
15 use of public transportation.

16 2) Effects of Payment for Protection Tax

17 Many types of insurance rightly belong in
18 the domain of private enterprise when the contract for
19 insurance is of a private and voluntary nature. It remains
20 at the discretion of the individual as he wishes to pro-
21 tect himself from loss of personal possessions by fire or
22 theft, and the loss of earning capacity through sickness
23 and accident. But some types of insurance and protection
24 by their inherent nature are monopolistic as
25 they affect society as a whole rather than the individual.
26 These would include fire protection to safeguard the
27 community, police protection to quell lawlessness and
28 riots, medical health departments to prevent or handle
29 epidemics, and national defense to protect national interests.

30

(25)



1 No individual should be expected to provide
2 his own police, army, navy or air force. And conversely
3 no government should enter into any contract that con-
4 cerns only the private business of the individual. The
5 role of government is to do for the individuals as a
6 group, those things that will benefit the group, but
7 cannot be accomplished by individual action. The role
8 of the individual is to do for himself all that will bene-
9 fit him personally and that will not interfere with the
10 equal rights of others or the rights of society as a
11 whole. (26)

12 3) Effects of Payment by Ability to Pay Tax

13 Of all taxes this is the most inequitable and
14 discriminatory in nature. It does not differentiate
15 between those fortunes that have been made by honest
16 toil and those that have been created by some privilege
17 that society has surrendered to the individual. If earn-
18 ings have been created by the individual they justly
19 belong to the individual. If they have been created by
20 the activities or presence of society then they rightly
21 belong to society. Present tax laws take little cogn-
22 izance of the essential difference in the nature of what
23 money represents at different times and in different
24 places.

25 4) Effects of Payment by Ability to Purchase Tax

26 This is the most vicious of all taxation as it
27 bears most heavily on those who have not the ability to
28 pay. It causes the most human suffering, misery and
29 degradation because by its very nature it must be spread
30 over a broad base of the necessities of life. The



1 hundreds of hidden taxes that adhere to milk, bread, meat
2 and other staples slice a larger percentage off the
3 meagre earnings of the poor than they do off the
4 incomes of the middle or upper classes. Taxes on luxuries
5 can be avoided by not buying luxuries but taxes on nec-
6 essities can only be avoided by dying. (28)

7 PART III

8 BASIC ECONOMIC PRINCIPLES

9 It is time to return to the ABC's of economics
10 to see where we have gone astray. The professional
11 economists have not yet come up with a solution to the
12 national dilemma. The next few pages will be devoted to a
13 rediscovery of basic truths that we dare to ignore only
14 at the country's peril. (29)

15 The Two Axioms of Economic Motivation

- 16 1) Man seeks to satisfy his desires with the least
17 exertion.
18 2) Man's desires are unlimited.

19 Why is wealth produced? Only to satisfy the
20 continuing needs of man. The basic need of food, shelter
21 and clothing must be met first. It becomes the way then of
22 the intelligent man to satisfy these needs with the
23 least possible exertion. When these basic needs have
24 been looked after man then has greater and greater desires
25 which he promptly tries to satisfy with less and less
26 effort. (30)

27 This is the driving motivation that has led
28 man steadily up the ladder of progress to the high level
29 of civilization that we enjoy today. It is not greedy to
30 want more and more of the finer things of life. It is



1 natural instinct. And it is not laziness to attempt
2 to ge them with less and less effort. It is natural
3 reasoning. (31)

4 The Three Factors of Production

5 To truly understand the nature of taxes we
6 must first understand the nature of wealth. From the
7 standpoint of political economy there are only two original
8 elements in the world - man and nature. The active and
9 the passive. (32)

10 The element nature is the vast warehouse
11 from which man draws all that he needs to sustain life.
12 He dies without access to it. The rolling fields, the
13 trees in the forest, the oil in the ground, the fish in the
14 ocean, the wild animals and birds, the acreage under his
15 farms and cities are all vital to his survival. In short,
16 the term LAND is used to designate all that has not yet
17 been changed by the exertion of man. It is passive. (33)

18 The active exertion of man to wrest the bounty
19 from nature includes the moving, combining, separating,
20 securing or in other ways modifying what is found in nature
21 to fit it for human consumption or use. All human
22 exertion, both physical and mental that
23 enters into this process is termed LABOUR. (34)
24 It is active.

25 By the application of Labour to Land we create
26 a product not found in nature. This product does not fit
27 into the definitions of the two original elements and
28 indeed is quite different in its properties. To fit into
29 the study of political economy it must be material, be
30 capable of satisfying human desires and have exchange



1 value. This is WEALTH. (35)

2 Wealth then is all of those things grown,
3 manufactured, boxed, piped, moved, separated, combined,
4 drilled, mined, or in any other way for human use. (36)

5 Money is not wealth since it is incapable of
6 satisfying human desires. We do not eat, wear or
7 sleep in money. Its only value comes when we have exch-
8 aged it for wealth that we can use. Money is a receipt
9 for wealth much like a baggage check is a receipt for
10 baggage. (37)

11 Wealth can be divided into two categories.
12 First we have those products that are used in their present
13 form to directly satisfy desires. They are used up and
14 cease to exist. (38)

15 Secondly, we have those products that are not
16 immediately consumed but are used to produce more wealth.
17 The whole range of tools than man uses in creating more wealth
18 is termed CAPITAL. Money is not Capital. It is a
19 receipt for Capital. (39)

20 These are the three factors of production. There
21 are no others. And the natural laws that govern the inter-
22 actions of these three factors explain employment, taxa-
23 tion, rent, wages, interest and human motivation. (40)

24 To Sum Up

25 Land is the entire universe except man and his products.

26 Labour is all human exertion in the production of wealth.

27 Capital is that part of wealth used to produce more
28 wealth.

29 Wealth is all material things produced by human labour for
30 the satisfaction of human desires and having



1 exchange value.

2 Examples

3 Field, farmer, tractor - land, labour capital

4 Stope, miner, drill - land, labour, capital

5 Tree, 'jack, saw - land, labour capital

6 King & Bay, mgmt. & staff, bldg. & furn. - l,l,c.

7 Iron ore, car assemblyman, dies & jigs - l,l,c.

8 HOW WEALTH IS DIVIDED

9 It is possible to have wealth produced by Land
10 and Labour alone, but in our modern society practically all
11 production is aided by Capital. Therefore, all wealth that is
12 produced by Land (the raw materials and natural resources),
13 Labour (The human exertion needed to convert these materials)
14 and Capital (the tools to aid Labour) must of necessity
15 be divided three ways so that each factor of production
16 receives its share in relationship to its contribution to
17 production. (42)

18 WAGES is the term used for the share received by Labour.
19 It may take the form of salaries, commission, hourly rates,
20 bonuses, or any other designation but, in economic termin-
21 ology, the term wages covers all rewards for physical or
22 mental exertion that results in the production of wealth.
23 It is that portion paid to the active factor. (43)

24 INTEREST is the term used to denote the share that is paid
25 for the use of Capital. It is that amount that is nec-
26 essary to obtain and replace machines, buildings, trucks,
27 trains and all else necessary to aid production except Land
28 and Labour. It is payment for the use of energy stored up in
29 this passive factor. (44)

30



1 RENT is that share of wealth that is paid for the use of
2 Land. This includes all natural resources as well as
3 agricultural and urban land. It is payment for the use
4 of the virginal, passive factor. (45)

5 The Laws of Rent, of Wages and of Interest.

6 We now have three clearly defined factors of
7 production (Land, Labour and Capital) and three clearly de-
8 fined divisions of wealth (Rent, Wages and Interest). It
9 remains to be shown who gets what share and why. This we
10 will do in a correlation of the three laws. (46)

11 To illustrate how these three laws work
12 let us picture, in our mind, an imaginary island. It is
13 fertile with a few small streams draining into a well
14 protected harbour. It has some open country along with
15 the normal amount of trees, plans and rocky prominences.
16 It is uninhabited by very habitable. (46)

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Along comes a small ship of settlers looking
for just such a place to start a new life. They land
and, after a short survey, each man picks his piece of
land. (47)

These pioneers know that each acre will yield 100
bushels. With a man doing a full days work, assisted
by his faithful mule and plow (his capital), one acre will



1 be a full time occupation. His returns will be diminished
2 only by the 30 bushels (interest), necessary to maintain and
3 replace the mule and plow, leaving him a comfortable 70
4 (wages) to live on. This good land is plentiful so each
5 man takes 4 acres - 1 to work on and 3 for some future
6 use. He registers his deed. Since the best land lies in
7 the same general area, the settlers are comparatively close
8 together. (48)

9 Yield 100
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16 The next year along comes another shipload of
17 settlers. They land. They look the island over, since all
18 of the 100 bushel land is taken, they settle on the next
19 best land, which will raise 90 bushels with the same effort.
20 They each take 4 acres - 1 to live on and 3 for future
21 use. Everybody is friendly and Yield 100 90
22
23
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26
27

28 The following year another ship comes over the
29 horizon with a jolly band of humans in search of a "good
30 place to earn a decent living". They land and survey the



1 situation. They find that they have the choice of going
2 to the 80 land, that can be had for nothing, or settling
3 on some of the unused land and paying rent. (50)

4 But how much rent? And who decides?

5 Since every man wants as much as he can get for
6 the same amount of labour the new arrivals decide they
7 will not pay more than 20 for 100-land and 10 for 90-land.
8 The original settlers decide they they will not accept less
9 than 20 for 100-land and 10 for 90-land. The new
10 arrivals have reasoned that they must have 80 left for
11 themselves no matter what land they use. Yearly rental
12 contracts are signed, in an amicable manner, and life
13 returns to normal. (51)

14 Normal, that is, except that some of the first
15 settlers lay awake nights, wreathed in smiles, at the
16 wonderment of doing no more work than in the previous year
17 for their 70, and having another 60 handed to them for no
18 effort whatsoever. Some of the new settlers wondered a little
19 about this too. (52)

20 Yield 100 90 80

21

22

23

24

25

26

27 Rent 20 10 Free

28 Wages 50 50 50

29 Int. 30 30 30

30



1 The next year, long before any ship came into
2 view, settlers were seen down near the shore gazing out to
3 sea. When the ship did finally put into shore there was a
4 mad scramble of activity. All contracts were up for re-
5 negotiation. And the best unfenced the best land would go
6 up to 30 and all wages would drop to 40. (53)

7 Some of the first settlers got so carried away
8 than when the smoke cleared they found that they had
9 rented all four or their acres for a total of 120 and had
10 no place to live. They were forced to sell their faithful
11 mules (to a used mule dealer) and move on to a new community
12 of Firstville. After paying 10 in rent for the third of an
13 acre this left them with 110 with which to support the newly
14 organized country club, cultural centre, etc. (54)

15 Yield 100r 90 80 70

16

17

18

19

20

21

22 Rent 30 20 10 Free

23 Wages 40 40 40 40

24 Int. 30 30 30 30

25

26 Small craft put to sea the next year in search of
27 a ship - any ship. When the ship was sighted and shep-
28 herded into harbour, by the small flotilla, yearly contracts
29 were quickly signed. When it was all over, wage earners had
30 taken a cut of ten (putting them on a level of the mules),

30



1 while many members of the Firstville Bridge and Luncheon
2 Club congratulated one another for the fact that by hard
3 work they had increased their earnings by 40. But they all
4 looked up to one member who, early in the spring had left
5 the land he was renting and staked out half of all the free
6 70 land on the island. He of course went to the registry
7 office and had it registered in his name, E.P. Turner.
8 He now built a 50-room castle high on the hill overlooking
9 Firstville. (55)

10 Firstville was now quite a metropolis and
11 demands were being made for all sorts of services -
12 streets, sewers, lights, police, etc. Money was needed
13 badly to fill these demands. The mayor and a properly
14 elected group of "property" owners sat down to deliberate.
15 In their wisdom, and to show no favoritism, it was dec-
16 ided that each mule and each man on the island would be asses-
17 sed 5 per year.

18 Yield 100 90 80 70 60

19

20

21

22

23

24 Rent 40 30 20 10 Free

25 Wages 30 30 30 30 30

26 Int. 30 30 30 30 30

27

28 The next year, after the ship had arrived, the
29 Firstville citizens found that they had 185 (after taxes),
30 E.P. Turner had 23,655 (after taxes), the mules had 25
(after taxes), and the workers had 15 (after taxes.) The



1 worker, however, quickly rectified this by kicking the mule
2 forcefully in behind the scenes arbitration, until he got a
3 bigger share. They settled for 20-20. The Firstville citi-
4 zens, in a burst of charity, subscribed 10 each to the
5 Founders Underprivileged and Emergency Fund, (E.P.T. set up
6 his own with 175), to help look after the poor and
7 needy sons of workers and sons of mules. (57)

8 There was unrest in this once serene island. The
9 mules kicked the men and the men kicked the mules. Where once
10 they had worked together in close harmony, these now sometimes
11 stopped to talk things over for a day or two (with a conse-
12 quent loss of production). Some men were out of work because
13 their mules were too sick and near death to go any further.
14 Some had broken plows and couldn't afford to repair them.
15 The island had problems - unemployment, lack of capital,
16 uncollectable taxes, poverty, sickness, under-production any
17 many others. The end looked near. (58)

18 Yield 100 90 80 70 60 50 40

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24

25 Rent 50 40 30 20 10 Free

26 Wages 20 20 20 20 20 20

27 Int. 20 20 20 20 20 20

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While all this had been going on, one studious
new settler had been quietly walking about the island
making careful observations. He counted people, looked at



1 soil, measured roads, inspected sewers and a host of other
2 things. And he noted it all in a little black book. His lamp
3 burned late at night for many nights. By mid-winter he had
4 completed his computations. Now it was time to act. During
5 his inspecting he had also noted certain individuals who
6 possessed wisdom and perception, judgment and knowledge,
7 and above all a keen sense of justice. He now called together
8 his commission of five men and one woman and told them of
9 his findings. (59)

10 He observed that the rent of land is determined
11 by the excess of its produce over that which the same
12 application of labour can secure from the least productive
13 land in use. The Law of Rent.

14 He observed that interest is determined by the
15 maximum amount Capital can demand without losing the use
16 of Labour. The Law of Interest.

17 He observed that wages are determined by the
18 maximum amount Labour can demand without losing the use of
19 Capital. The Law of Wages.

20 In his general observations he said that Rent,
21 Wages and Interest are all determined at the Margin of
22 Production, i.e. the point between free land and
23 rental land. He pointed out that since man had tamed the
24 mule and made the plow, they were meant to work as a team.
25 Their interests are identical as they must dividewhatsoever
26 wealth is left after Land has first taken its share. He
27 also noted that interest and wages are directly attributable
28 to the effort of Capital and Labour, but rent has no
29 relationship to the efforts of the landholder. In fact, rent
30 is attributable to the collective presence of Capital and



1 Labour.

(60)

2 Porbably his most important revelation to the
3 commission was this startling fact. Where population is
4 densest and the need for community expenditures greatest,
5 rent is the highest. Where population is sparse, and the
6 community needs negligible, rent is the lowest. The members
7 faces lighted up at the profound simplicity embodied in
8 this well-researched and well-thought out principle. (61)

9 But, did he have a plan? Yes. Since less than
10 20% owned all of the land, and more than 80% had no voting
11 rights, this would have to be rectified immediately.
12 Since the source of wealth created by society was at the
13 point where it was needed most it would have to be taken
14 as taxes. Since the highest taxes would be at the point where
15 Capital and Labour had participated in its creation, no
16 further demands could be made on Capital or Labour. If
17 Labour increased its skill, and consequently its earning
18 capacity, this entire increase would go to Labour. If
19 Capital improved its techniques of production, and conse-
20 quently its earning power, the entire increase would go
21 to Capital. But in return for this freedom to increase earn-
22 ings, without further taxation, Capital and Labour would
23 not be granted any assistance or privilege that was not
24 shared by all others. (62)

25 The Commission approved the plan heartily and
26 proceeded to put it into effect. Taxes were lifted
27 from the back of the mule and he returned to the fields
28 with his untaxed master. Many Firstvillains of the
29 leisure class returned to the fields. Others went into
30 the service industries and professions. The Founders



1 Underprivileged and Emergency Fund was disbanded and the
2 premises turned into a free community centre. Three swimming
3 pools were built. A Firstville Transit Board was set up
4 and a complete surface transportation system was run without
5 the payment of fares. This was deemed equitable as the
6 highest concentration of taxes that paid for it was also
7 found to be the exact centres of highest use. And every
8 day from noon until 10 P.M., on the hour, guided tours
9 were conducted through the 50-room E.P. Turner Castle,
10 high on the hill overlooking the thriving city of
11 Firstville. (63)

12 This is the end of the story.
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PART IV

LASTING EFFECTS OF THIS COMMISSION

Apart from the obvious recommendations that this commission may make to the government regarding sources of revenue, there is a more vital and far reaching purpose to be served. Most taxes and tariffs are computed and levied with flagrant disregard for any scientific principles. Agitation for action is pressed by organized pressure groups and legislation passed as a matter of political expediency. All of these arbitrary measures are like chickens that come home to roost and manifest themselves in unemployment, strikes, inflation, depressed areas, poverty and sordid social problems. Taxes levied because of pressure groups lead to inequities and inequities in society can lead to a general breakdown of the democratic structure. We may find ourselves losing our country to foreign ideologies, as others recently have, through default. If our system is the best in the world then we have nothing to fear, if it isn't, we had better take measures to correct it now. (64)

THE CORPORATION OF CANADA

It might help to visualize the true picture if we take a minute to consider Canada as a corporation and every Canadian citizen as an equal shareholder. The total assets of the corporation would be the value of the country (minus personal wealth) if we were to put it on the auction block tomorrow. (65)

As equal partners we would share equally in the



1 proceeds of the sale. If we rented rather than sold we
2 should share equally in the rental proceeds. Since all
3 parts of the country are not equally desirable they would
4 not rent for the same amount. But the 18,000,000 new
5 citizens would soon decide by open auction who was going
6 to take what locations. And they would be satisfied,
7 knowing that those locations with the highest rentals
8 afforded the best communal services as well as the best
9 trade opportunities. (66)

10 The ALUMNI GROUP estimates the total value of
11 Canada at \$150 billion and the rental value at \$10½
12 billion. (67)

13 Each citizen in Canada, then, has a dual role to
14 play. On the one hand he is an equal owner and entitled
15 to an equal share. On the other hand he is a tenant and
16 as such must pay in accordance to the size and type of
17 space that he wishes to occupy. (68)

18 Of course it is not necessary for each citizen
19 to receive his dividend in cash or by cheque. In fact it
20 would be foolish. All that is necessary is to have that
21 amount applied to the running of the country in lieu of any
22 further taxation. (69)

23 In this way the citizen would discharge his
24 responsibility to the country and the country would
25 discharge its responsibility to the citizen. It would also
26 insure the economic rights of an individual when he was
27 born and relieve his heirs of all further duties when he
28 died. (70)

29

30



A TAXATION PLAN TO DRIVE THE CANADIAN ECONOMY
AHEAD AND REDUCE UNEMPLOYMENT

The taxation system in Canada, at the three levels of government, make it difficult to accumulate capital to invest in industry. When it is accumulated and invested in business, tax destroys the motivation to hit top production levels. Government insists in taking a larger and larger share as production increases. (71)

When a manufacturer has completed all the necessary preparations to start producing he finds he has an unwanted partner - the tax collector. This partner, up to this point, has done none of the planning, scrimping or saving, or taken any of the risk. But from this point on the unwanted partner's voice will assume an ever increasing importance in every decision that the businessman must make. And indeed he may become a type of dictator that will take all major decisions out of the hands of the businessman entirely. (72)

For sale of illustration let us assume that a manufacturer going into business has invested \$1,000,000. (\$300,000 to buy the site and \$700,00 for building and equipment). He is going to turn out a unit that sells for \$3,000. (before taxes). Assume that unit production costs remain constant. (73)

There are three ways in which a tax on this business can be levied. (74)

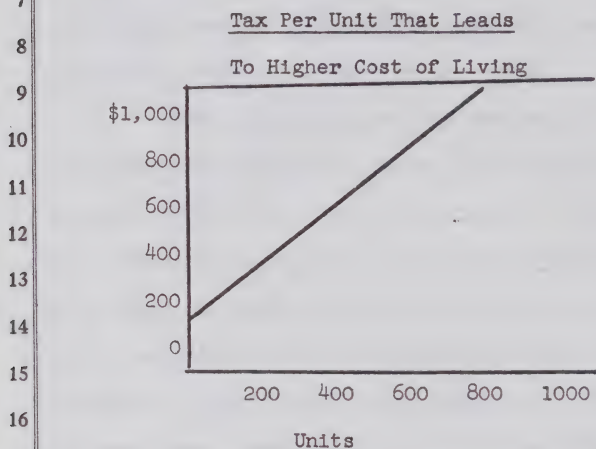
1) An Increasing Tax Per Unit Produced

On the first 100 units the tax would be 5%, and would increase by 5% on each 100 thereafter. This is the



1 effect produced by the Corporation Tax that rises to 52%
2 and the Income Tax that rises to 80%.

3 At some point this business will cut back or
4 fail with the consequent increase in unemployment. In
5 any case it adds to the upward spiral of the cost of
6 living. (75)



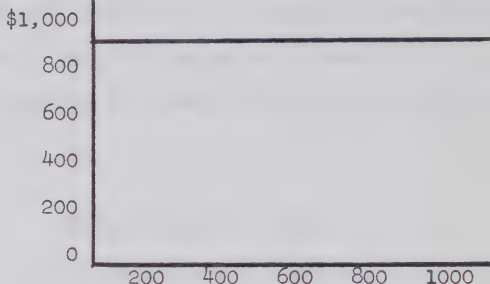
18 2) A Constant Tax Per Unit Produced

19 On all units the tax is a flat 30%. This means
20 that prices will start high and remain that way because
21 there is no way to reduce them. (76)

22 If this tax is levied near the level of the
23 original manufacturer it means that all subsequent
24 handlers will make a profit on the tax. This is true
25 of all Sales Taxes except those collected at the point of
26 sale. (77)



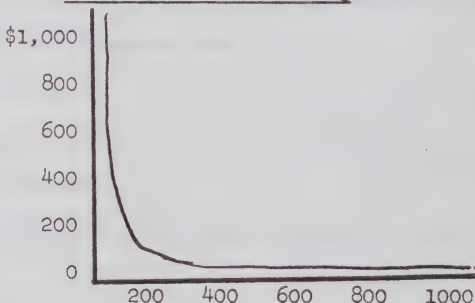
Tax Per Unit That Leads To
A High Steady Cost of Living



3) A Reducing Tax Per Unit Produced

Before production starts a \$24,000 tax is paid. Although no further taxes would be collected, in effect, the tax rate on the first unit would be 800% (if no further units were produced). If only 100 units were produced the percentage would be 8 in effect. When 1000 units have been produced the rate would have dropped to .8%. Thereafter, it would reduce to insignificance. (78)

Tax Per Unit That Leads
To Lower Cost of Living



The original tax would be collected on 8% of the value of the site. This would reduce the cost of starting by almost \$275,000.



PART V

RECOMMENDATIONS

The ALUMNI GROUP respectfully makes the following
recommendations on behalf of all Canadians. (80)

FIRST: The government must immediately vacate the sphere
of business that can best be carried out by private
individuals and corporations operating in a truly free
and competitive market. (81)

SECOND: An atmosphere of 100% free trade must be created
in Canada. This would include absolute and unrestricted
trade with other nations and absolute free trade between
individuals within the country. By establishing an
Economic Bill of Rights, labour could not be exploited
and would find employment at the highest point of return.

(82)

THIRD: The government must appropriate to itself, in the
form of taxes, those values created by society as a whole.
The government must control, by means of taxes, those
natural monopolies that are properly the only business
of government. (83)

FOURTH: The government must create a clean cleavage,
giving business the unrestricted right to carry on
legitimate business in any manner it sees fit. It must
also remove all special privileges and subsidies that have
been given to a select few at the expense of the many.
Then it must concentrate on running the business of
government, which is the administration of the natural
assets and created values held in trust for the entire
population. The line of demarcation must be clearly drawn



1 as to what is private and what is public business (84)

2

3

J.W. Ramsay, Chairman,

4

Taxation Committee,

5

The ALUMNI GROUP,

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1318 Daimler Road,

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Clarkson, Ontario.

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ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1 SUBMISSION FROM MR. ROGER POCOCK

2 Box 785,
3 Woodbridge, Ontario,
4 March 22, 1963.

5 Royal Commission on Taxation,
6 Box 466,
7 Ottawa.

8 Gentlemen: Re: Submission of Brief

9 I assume it is the purpose of the Royal Commission on
10 Taxation to devise a system of levying taxes that not
11 only provides the necessary revenue to meet government
12 commitments but also provides incentive for business
13 expansion, encouragement for investors and does not stifle
14 ambition and the industrious quality in individuals.
15 This submission is not intended to specify or recommend
16 methods of taxation but to point out regions for further
17 study.

18 Three possible regions which are worthy of investigation
19 are -

- 20
- 21 1) A system of taxing stock market transactions that
22 will encourage the genuine investor and discourage
23 the "day-to-day" trader and "short-seller" who,
24 at present, have the effect of scaring away many
25 genuine investors.
 - 26 2) Stabilizing real estate prices, mainly land, in
27 the vicinity of expanding towns and cities by a
28 method of taxation that discourages speculators
29 and reduces the number of intermediaries between
30 the original owner, that is the farmer for



1 example, and the final user, that is, the
2 builder or industrial purchaser.

3 3) Revision of municipal property tax to

4 (a) encourage the building of good quality
5 industrial, residential and commercial buildings,

6 (b) encourage landscaping and appearance
7 improvement of industrial property,

8 (c) assess and tax industry, commercial
9 property owners and apartment owners on
10 the amount of air pollution caused by
11 their permanently installed equipment,

12 (d) impose a surtax on industries that by
13 virtue of their operation impose a heavy
14 burden on the municipalities' sewage
15 disposal system,

16 (e) discourage the construction of fire
17 hazardous buildings,

18 (f) Discourage unsightly outside storage and
19 the accumulation of refuse around industrial,
20 commercial and residential property,

21 (g) discourage the holding of vacant land in a
22 district which has otherwise been completely
23 developed,

24 (h) abolish the tax dodge of lower taxes for an
25 unfinished building.

26 These may all be aspects of taxation which are either at
27 present under investigation or adopted in some form. In
28 which case, it is hoped that this submission will add
29 further emphasis to these points.
30



1. Capital Gains Tax - imposed by the Federal Government
on stock market transactions -

A sufficiently high tax on capital gains related to the period of time over which the capital was gained could be designed to discourage short trading and the buying of stocks in large quantities in order to make a quick profit on a small price increase of the stock. This type of trading, when carried out on a large scale, discourages the investor who wishes to invest his capital in an industry, mine etc. and is prepared to take either a reasonable profit or dividend over a reasonable period of time. The aforementioned type of trading is also of no assistance to the company that is seeking capital expansion by the sale of stock. The onus of collecting a suitable capital gains tax would be on the broker or bank through whom the stocks were sold and, of course, would have to apply whether a stock were registered or not. The principle would be to impose the tax on capital gains over and above 7% per annum and the tax rate should be about 50% of the excess. The tax would be applicable to all stocks which had been bought and sold through banks or brokerage offices situated in Canada regardless of the country of residence of their client. It would not be practical to apply the tax to a stock sold in Canada but bought through a broker outside Canada. When selling stock, it would be necessary for the owner to submit a copy of the transaction slip obtained from the bank or broker when the stock was originally



1 purchased. The selling broker would be required to
2 check this through his own books if the stock was
3 originally bought through him or with the broker
4 through whom the stock was purchased. This would
5 require records to be kept active by all brokers for
6 a period of 5 years. In the case of stocks held for
7 longer than 5 years, the broker would check the buying
8 price by the monthly or even yearly average price of
9 the stock at the period the stock was purchased.
10 This type of tax would be additional to the present
11 provincial tax on all stock sales. The broker would
12 require to be reimbursed for his efforts in collecting
13 the tax. It may sound complicated and would involve
14 a lot more than I have described but the collecting
15 of this type of tax would be simple compared to the
16 collecting of the Ontario Provincial Sales Tax and it
17 would also be a very fair method of taxation.

18
19 2. Real Estate Capital Gains Tax - imposed by the
20 Federal Government -

21 I propose a high tax rate be imposed on profits from
22 real estate transactions where the vendor of the real
23 estate has not made any improvements to the property
24 during the time it was in his ownership.

25 This, of course, applies particularly to land
26 purchased by speculators and would be independent of
27 the present Provincial Land Transfer Tax. Real Estate
28 sold without profit or a reasonable gain, say 2% per
29 annum, plus expenses incurred buying, selling and
30 improving, would not be taxable. The tax would be



1 based strictly on excess profit made on real estate
2 transactions and should be about 50% of all in excess
3 of the reasonable gain mentioned above. It would be
4 applicable to all types of real estate transactions
5 in Canada, residential, commercial, church, municipal
6 and farm properties but would derive most revenue
7 from transactions involving land adjacent to expanding
8 communities.

9 For example, a farmer close to a city has received an
10 offer for his property from a land developer. The
11 farm has been in his family for several generations
12 and the purchase price of the land 100 years ago is
13 shown on the deed as \$300.00. The land had to be
14 cleared of bush and stones, fenced, cultivated,
15 buildings added etc. A reasonable gain for the
16 vendor would be assessed as follows -

17	Original price	\$300.00
18	2% per annum on purchase price	\$2,173.00
19	Cost of clearing 100 acres at	
20	todays prices	\$10,000.00
21	Cost of fencing, once only, at	
22	todays prices	\$8,000.00
23	Cost of buildings at todays prices	\$55,000.00
24	Arbitrary figure for land	
25	improvement \$4.00 per acre	\$400.00
26	Selling expenses	\$1,127.00
27		<hr/>
28	Total untaxable value	\$77,000.00

29 But the farmer was offered \$1,000.00 per acre, the
30



1 capital gains tax would then be 50% of \$23,000.00.

2 The land developer would then compute his selling
3 price by adding the cost of developing, engineering,
4 subdividing, road building, sewers etc. plus 10%
5 profit on improvements, to the purchase price and
6 dividing the total by the number of acres of saleable
7 property. At the time of selling a parcel to a
8 builder, the untaxable value would be the above price
9 per saleable acre plus 2% per annum of the developers
10 original investment divided by the number of saleable
11 acres times the size of the parcel being sold. This
12 would establish the reasonable gain price and any
13 amount received by the developer above this price
14 would be taxable at the high rate.

15 The developer would probably find that some parcels
16 of land are choice location and will bring a high
17 price and also that some are not very desirable and
18 have to be sold at below the reasonable gain price.
19 In this instance, the developer will be entitled to
20 a tax rebate provided the tax rebate does not, of
21 course, exceed the tax paid on the other parcels of
22 property.

23 The builder buying land from the developer would be
24 subjected to the same system of taxation. He could
25 add to his buying price per lot the 2% per annum, plus
26 the established value of the house or other building
27 plus advertising and selling expenses, taxes, etc. to
28 establish the reasonable gain price.

29 The buyer of the house or building may wish to sell in
30



1 future years but it would not be considered that he
2 originally bought the property as a capital gains
3 investment, but to get use from it. Therefore when
4 assessing the selling price for taxation, the
5 reasonable gain price would be the purchaser's original
6 price plus the cost of improvements plus 1% per annum
7 of the original price.

8 It might be argued that this type of tax would
9 discourage land development and building. On the
10 other hand, it would probably discourage land
11 speculation and more capital might be diverted to
12 mortgages, thus encouraging building and land
13 development in their correct sequence.

14
15 3. Revision of Municipal Taxes to do away with outdated
16 methods of assessment -

17 Any revisions should apply to all municipalities,
18 towns, villages etc., therefore a degree of federal
19 or provincial control would be necessary.

20 Firstly, an assessor for a municipality should be
21 qualified for his work, that is, he should have
22 Grade 12 education or better, a few years' experience
23 in the building or an associated business, take a
24 two or three year part-time course in property
25 assessing and touch on architecture, surveying,
26 landscaping, fire prevention, industrial safety,
27 public health etc. He should qualify by passing a
28 government sponsored examination.

29 A few proposed revisions in municle property tax
30 worthy of serious consideration are listed below:-



1 (a) The tax assessment should encourage the use
2 of good quality safe building. At present,
3 municipale taxation systems discourage good
4 quality building and it has been up to the
5 mortgagee and insurance companies to maintain
6 the quality of buildings.
7 The old system of assessing a property by its
8 frontage on the street, the size of building
9 lot and the size of the building is, with a
10 few exceptions, the most fair and logical
11 system. However, two houses or other buildings
12 may have the same lot size and the same useable
13 floor space within the building but one house or
14 building is built of brick and the other of
15 wood. Both require the exact same services in
16 the way of street upkeep, sewers and garbage
17 collection; the wooden building is probably a
18 bigger liability to the fire department and
19 police department and yet the better quality
20 brick building is assessed higher than the
21 wooden building. This is not logical. All
22 buildings should be assessed on their area of
23 useable floor space and the services they demand
24 from the municipality. The owner of a well
25 constructed and well maintained building should
26 not be penalized while the owner of the poorly
27 constructed or dilapidated building gets the
28 benefit of a lower assessment. This is not only
29 unfair but encourages a poorly developed community,
30 leaving the aesthetic appearance of a district



1 to be created by those residents with a pride of
2 ownership.

3 (b) Landscaping which improves the general appearance
4 of a district should be encouraged by assessing
5 the size of a lot only and not the extent of
6 the landscaping. Properties found to be poorly
7 kept one year should have their assessment for
8 the following year increased.

9 (c) Commercial, industrial or apartment properties
10 which produce excessive amounts of smoke or air
11 polluting fumes by virtue of their nature of
12 operation or equipment they have installed, should
13 be additionally assessed for the amount of air
14 pollution they cause.

15 Foundries that produce excess amounts of smoke
16 and dust, industries with paint spray booths with
17 fumes vented to atmosphere without prior washing,
18 apartments with poorly maintained coal burning
19 furnaces and incinerators where the smoke is not
20 controlled, service stations which vent their gas
21 storage tanks to atmosphere without condensing
22 the vapours. These are all sources of air
23 pollution that can be measured with equipment in
24 the possession of the air pollution control
25 departments in most large cities. As air pollution
26 can be measured it can be assessed and taxed
27 accordingly. In the majority of instances the
28 sources of air pollution can be reduced or
29 abolished and the tax would be the incentive for
30 industries etc. to do something about air pollution.



- 1 A somewhat similar tax could be applied at the
2 provincial level to mobile equipment producing
3 air pollution.
- 4 (d) Certain industries and commercial enterprises
5 impose a higher than average burden on the sewage
6 disposal plant in their municipality or cause
7 pollution of local streams or rivers. A reasonably
8 accurate assessment of a companies sewage disposal
9 burden or amount of water pollution could be made
10 from the nature of the company's business and
11 the amount of water they use and their property
12 or business tax could be assessed accordingly.
13 Chemical plants, meat packing houses, dairies
14 and paper processors are typical examples of the
15 type of operations that would be subjected to
16 this additional assessment.
- 17 (e) Certain buildings are more susceptible to fire
18 damage or destruction and consequent danger to
19 occupants than other buildings and yet these
20 buildings may still comply with the local by-laws
21 and fire regulations. Such buildings would
22 include wooden houses, service stations and
23 workshops heated by means of space heaters or
24 coal stoves, welding shops, storage warehouses,
25 foundries, inflammable chemical processing plants
26 and the like whose premises are of wood construction
27 and not protected by an adequate sprinkling system.
28 An increased property assessment for fire hazard
29 and a reduction in the assessment when the fire
30 dangers were removed would encourage property
owners to rectify possible sources of fire and
build and maintain their property as close to fire



1 proof as possible.

2 (f) Outside appearance, neatness and cleanliness
3 around industrial, commercial and also residential
4 property is an asset to a neighbourhood. The
5 lack of neatness and tidiness etc. quickly
6 downgrades a district. Property owners who
7 persist in the outside storage of machinery,
8 packing cases, raw material, steel, lumber etc.,
9 paint cans, storage drums, unused and partly
10 wrecked vehicles, should be assessed for this
11 type of outside storage in an effort to produce
12 a respectable looking neighbourhood.

13 Construction companies, builders yards, steel
14 fabricators and lumber yards would not be
15 exceptions to this assessment but consideration
16 would be given for neatness where outside storage
17 was necessary by virtue of the type of business
18 conducted.

19 (g) Land held vacant in an otherwise completely
20 developed district should have its assessment
21 increased in an effort to complete the pattern of
22 development in that district. Probably most
23 municipalities already follow this system.

24 (h) The practice of reduced assessment for an
25 unfinished building should be abolished. After a
26 building permit has been taken out a reasonable
27 length of time should be allowed for the building
28 to be completed and the property assessed according
29 to the plans submitted with the application for
30 the building permit.



1 Under the present system, in the majority of
2 municipalities, a house that does not have steps
3 to the front door can enjoy a reduced assessment
4 for a countless number of years, while the
5 neighbours who do not practice this type of tax
6 evasion, are saddled with more than their fair
7 share of the tax burden.

8
9 As can be seen, these suggestions, if they were applied,
10 would call for more astuteness on the part of the
11 property assessor and a file card for each property
12 assessed for taxation would require to be kept up-to-date
13 showing when assessment penalties were imposed and why.
14 However, I feel that all these suggestions are within
15 the range of practicability.



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TORONTO, ONTARIO

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1 REPRESENTATION SUBMITTED BY:

2 THE CANADIAN JEWELLERS ASSOCIATION

3
4 RE: 10% Excise Tax on Jewellery Products

5 During the war years (1939-45) the Government
6 of Canada was faced with the problems of raising addi-
7 tional revenue with respect to the war and diverting
8 all our resources to essential endeavours.

9 To accelerate and encourage this, an additional
10 tax was placed on what was generall considered as non-
11 essential goods and among on which was included many
12 jewellery store products. It was clearly a discrimina-
13 tory tax but our industry recognized the necessity for
14 it. However, the war is long since over and the
15 emergency ceased to exist years ago but not so the added
16 excise tax although in certain other industries similar
17 taxes have been removed -- automobiles and furs for
18 example.

19 There is no justification whatever in 1962
20 why the jewellery industry of Canada should pay any more
21 than its pro rata share of all taxes and on the same
22 basis as the majority of other industries.

23 To survive and prosper, the Canadian jewellery
24 trade must retain the confidence of the buying public not
25 only in our products, but also in our prices which must
26 compete with the general scale of prices charged for
27 similar goods in other countries.

28 This extra tax, and other taxes, has a profound
29 adverse effect on the legitimate sale in diamonds in
30 Canada, particularly the large gems, because it encourages



1 smuggling. As you can well imagine, smuggling something
2 as small as a diamond is not much of a problem
3 especially when they can be worn when entering the
4 country.

5 Some years ago in the U.S.A. they had a ten
6 per cent duty on diamonds. It was raised to 20% and the
7 tax revenue dropped. The implication is that, as it
8 became more profitable to smuggle, such activity increased.

9 There is no duty on loose diamonds entering
10 Canada and so an obvious question is -- why smuggle.
11 The answer; so that there will be no official record of
12 such diamonds entering the country and they find their
13 way into jewellery which is sold minus the Excise Tax of
14 ten per cent, sales tax of eleven per cent, and in many
15 cases provincial sales taxes and finally income taxes.

16 Obviously if the discriminatory ten per cent
17 excise tax were removed, this would make the smuggling
18 of diamonds less attractive.

19 In support of our point, may we quote some
20 D.B.S. figures and compare them with similar figures
21 from the U.S.A.

22 In 1950 our domestic consumption of diamonds was \$6,932,000
23 in 1955 our domestic consumption of diamonds was \$7,946,000
24 in 1960 our domestic consumption of diamonds was \$7,724,000

25 During the same ten-year period, our disposable
26 income increased 51.5% and our population 29.9%.

27 Comparable figures in the U.S.A. are as follows:

28 1950 consumption of diamonds \$ 92,645,000

29 1955 consumption of diamonds \$138,030,000

30 1960 consumption of diamonds \$140,534,000



1 Their disposable income only increased 43.7%
2 and their population only 18.5% during the same years.

3 Thus we see that our diamond sales increase
4 during 1950-60 was only about 10% with a much greater
5 increase of population and disposable income as compared
6 with the U.S.A. but in the U.S.A. diamond sales increased
7 in the same period over 50%.

8 It is our contention that the difference in
9 these figures result because the total taxes on diamonds
10 is so much higher in Canada that illegal sales becomes
11 much more profitable.

12 Ironically, while the present tax structure
13 encourages illegal sales of diamonds, at the same time,
14 it further discourages legitimate purchases because of
15 the sharp increase in costs which is related to the
16 point we have already stressed in this brief about our
17 prices competing with the general scale of prices charged
18 for similar goods in other countries.

19 Of course, the discriminatory aspects of this
20 tax apply to the diamond phase of this industry as much
21 as any other.

22 A great deal of our wares are imported or
23 manufactured from imported components and we have no
24 control over these prices. Our industry is sensitive
25 to world conditions and the present ten per cent Excise
26 Tax imposes an unjust burden that weakens our competitive
27 position in relation to other products not so taxed and
28 which are competing for the consumer's dollar.

29 Although we are a relatively small industry,
30 still thousands of Canadians depend on this trade for



1 their livelihood. A high level of employment naturally
2 depends upon public consumption of our products and this
3 in turn depends upon being able to offer goods at prices
4 that are commensurate with values of other goods.

5 Any other merchandise, not saddled with this
6 extra ten per cent tax, naturally has a decided
7 advantage.

8 A feature of this highly discriminatory tax
9 that is not readily apparent, is the fact that the retail
10 jeweller must pay this ten per cent Excise Tax at the
11 time of purchase from his suppliers. Thus he has large
12 amounts of capital tied up in these taxes which he
13 cannot recover until the goods are sold. Other retailers
14 do not have funds unprofitably placed in this manner and
15 can use such monies to expand and promote their businesses.

16 During the expanding and buoyant years
17 immediately following the war, our industry, while
18 resenting the continuance of this discriminator tax (and
19 it can be called simply nothing else), was able to absorb
20 it. Today the consumer has a much wider range of products
21 and services to choose from, not faced with such an unfair
22 tax, which are competing for the available dollars. In
23 fact the growth of the Canadian Jewellery industry has
24 been retarded.

25 All the jewellers of Canada feel that a re-
26 consideration of our case is long overdue and we very
27 much welcome the step our Government has taken in
28 appointing the Royal Commission on Taxation and we
29 appreciate this opportunity of placing our case before you.

30 It is our contention that the burden of taxation



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5

1 should be shared equitably by all industry and no phase
2 of it should have its competitive position made unfavour-
3 able because it must pay more tax than its competitor.

4 Certainly this ten per cent Excise Tax imposed
5 on the jewellery industry represents an inequity and,
6 since this comes within the terms of reference of your
7 Commission, we take this opportunity to place our case
8 before you and we ask that this unjust tax be now removed.

9
10 Raymond P. Brown,

11 General Manager.
12
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TORONTO, ONTARIO

1
2
3 BRIEF OF AMPLIFICATION

4 TO

5
6 THE ROYAL COMMISSION ON TAXATION

7
8 GOVERNMENT OF CANADA

9 OTTAWA, ONTARIO

10 ON BEHALF OF

11
12 THE JEWELLERS OF CANADA

13 PRESENTED BY

14
15 THE CANADIAN JEWELLERS ASSOCIATION

16
17
18 May 7th, 1963
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I N D E X

- I SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS
- II INEQUITABLE DISTRIBUTION OF TAX BURDEN ON JEWELLERY
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Smuggled into and Sold in Canada
- VI JUSTICE FOR OUR INDUSTRY



CANADIAN JEWELLERS ASSOCIATION

(Founders of the Canadian Jewellers Institute)

800 Bay Street (Corner College and Bay Sts.), Toronto, Canada.

To the Chairman and Members,
Royal Commission on Taxation,
Box 466,
Ottawa, Ontario.

Gentlemen:

As the official voice of the jewellery industry in Canada, the Canadian Jewellers Association represents 1,161 retail jewellers, 91 wholesalers and 125 manufacturers who are members, as well as thousands of additional companies who are not.

We have been asked by our members to submit an additional brief amplifying our submission of November 27, 1962 to the Honourable Commission requesting the removal of a 10% Excise Tax on jewellery products which the industry deems inequitable, restricting and detrimental to the good of the Canadian economy.

We, therefore, submit for your consideration a brief of amplification, in accordance with the Commission's "Memorandum to Participants No. 11", dated March 22, 1963. It carries with it the opinions, frustrations of the past, and hopes for the future of the more than fifteen thousand Canadians employed in the manufacture and distribution of jewellery products.

Respectfully yours,
"Raymond P. Brown,"
General Manager

May 7, 1963.



I SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

1. During the years of the Second World War (1939-1945), our nation was involved in a bitter armed struggle for survival. Not only was additional revenue required to finance the war effort, but our government was faced with the necessity to divert consumer spending and our manufacturing capacity into essential war production.

Many jewellery factories turned to war production entirely.

2. To accelerate and encourage this diversion in a free economy, the Government of Canada used the Excise Tax as a tool and placed the burden of these taxes on certain classifications of goods. Most products produced by jewellery manufacturers and sold in jewellery stores were affected by this tax.

3. As an industry, we are concerned with the Excise Tax as it applies to each of three categories of goods, enumerated in Item 9 of Schedule 1 of the Excise Tax Act, and there identified as (a), (b) and (c), viz.

(a) Clocks and watches adapted to household or use, except railway men's watches, and those specially designed for the use of the blind, and alarm clocks where the sale price by the Canadian manufacturer or the duty paid value of those imported does not exceed ten dollars

(b) Articles of all kinds made in whole or in part of ivory, jet, amber, coral, mother of pearl, natural shells, tortoise shell, jade, onyx, lapis lazuli, or other semi-precious stones



(c) The following articles, namely:

articles commonly or commercially known as jewellery, whether real or imitation, including diamonds and other precious or semi-precious stones for personal use or for adornment of the person; goldsmiths' and silversmiths' products except gold-plated or silver-plated ware for the preparation or serving of food or drink....

4. Although the excise taxes levied on the selected industries were, at the time, highly discriminatory in a democratic economy, our industry and others disregarded the hardships imposed and, without complaint or question, diverted their energies, talents and resources into the war effort.

5. The war has been over for 18 years and the necessity to divert consumer spending away from jewellery products by the Excise Tax, with its resulting stifling effects on the jewellery industry, has long since passed. This is evidenced by the fact that Excise Taxes have been removed from many products as listed in Section II.

6. The relatively small amount of revenue produced by the Jewellery Excise Tax, as stated by the Department of National Revenue, which was \$5,577,397.72 for the fiscal year ended March 31, 1962 would be more than offset, as outlined in Section V of this brief.

7. As representatives of the Canadian Jewellery Industry, we conclude that the continuance of excise taxes on jewellery products is harmful to the nation for the following reasons:



- 1 (a) The Excise Tax creates an inequitable
2 distribution of the tax burden, forcing
3 the jewellery industry to pay more than
4 its pro rata share of all taxes. This
5 gives the majority of consumer goods
6 industries not burdened with this dis-
7 crimination an unfair advantage in the
8 competition for the consumer's dollar.
- 9 (b) The Excise Tax on jewellery reduces the
10 consumer's effective purchasing power.
11 Because of the highly competitive nature
12 of our business, any tax saving will be
13 passed on to the consumer. This buying
14 power could be used for additional pur-
15 chases, in either jewellery or other con-
16 sumer goods, resulting in more productivity
17 and more employment.
- 18 (c) The Excise Tax retards the growth of the
19 retail jeweller and manufacturer through
20 its unfair drain on capital, its diversion-
21 ary effects on consumer spending and its
22 reduction of the consumer's ability to buy
23 jewellery products.
- 24 (d) Because the Excise Tax on jewellery gives
25 an unfair advantage to competing industries
26 and reduces sales and productivity, it
27 discourages investment in the jewellery
28 industry.
- 29 (e) The Excise Tax has an adverse effect on our
30 nation's balance of international payments



in two ways:

(1) It encourages the purchase of expensive jewellery abroad with Canadian funds by private individuals,

(2) Through its depressing effect on volume production, it prevents our manufacturers from competing more favourably in the world export markets.

(f) The Excise Tax encourages professional smuggling of diamonds. There is no record of the diamonds so imported and the subsequent sale of smuggled diamonds results in a loss to the Government of Corporate Taxes as well as Federal and Provincial Sales Taxes.

(g) The Canadian Jewellery Industry cannot fully discharge its responsibilities toward furthering Canada's economic growth and export trade, burdened as it is by a discriminatory wartime-imposed levy, which had, as one of its original purposes, the depression of the jewellery business.

8. Because all of the aforementioned points fall within the terms of reference of your most Honourable Commission, we take this opportunity to place our case before you and sincerely ask, for the good of our industry and the progress of our nation's economy, that you recommend the removal of the 10% Excise Tax still being imposed on the Canadian Jewellery Industry, and upon the consumers of our products.



II INEQUITABLE DISTRIBUTION OF TAX BURDEN ON JEWELLERY
INDUSTRY IN CANADA

1. The original mission of the Excise Tax during World War II was to divert consumer spending away from some industries. Eighteen years later the Excise Tax on jewellery continues to serve that very purpose.

2. In spite of the fact that the Excise Taxes have been removed from many other products, (as per the following list), the business-detering features of Excise Taxes remain for the jewellery industry.

Furs

Cigarette Paper, Tube

Canadian Raw Leaf Tobacco

Soft Drinks

Candy and Gum

Fire Arms

Golf Clubs and Balls

Fishing Rods and Reels

Cameras, Projectors and Film

Trunks, Luggage

Fountain Pens, Desk Accessories

Coin and disc operated Vending Machines

Toilet Soaps

Automobiles

Buses

Motor Cycles

Tires and Tubes

Carbolic Acid Gas

Electrical Appliances



Appliances adapted to household use

3. There is no justification whatever, for the Jewellery Industry of Canada in 1963 to pay more than its pro rata share of all taxes on the same basis as the majority of Canadian industries serving the consumer.

4. Repeal of the 10% Excise Tax on jewellery will, for the first time since World War II, place our products on an equal basis with other products now competing for consumer preference, and will remove the government from the untenable position of influencing consumer selection of the types of goods and services for which he wishes to spend his money.

III EFFECTS OF EXCISE TAX ON CANADIAN JEWELLERY INDUSTRY

1. The Excise Tax on diamonds has had a profound adverse effect on the legitimate sale of diamonds in Canada as a result of both private and professional smuggling.

2. Some years ago in the U.S.A. there was a ten per cent duty on diamonds. It was raised to 20% and the tax revenue dropped. The implication is that, as it became more profitable to smuggle, such activity increased.

3. The fact that there is no duty on diamonds entering Canada implies that our government recognizes the fact that smuggling is a factor in the importation of diamonds. As there is no duty on loose diamonds entering Canada, one is inclined to ask why there should be smuggling. The answer lies in the fact that it pays professionals to smuggle large quantities of diamonds into the country to circumvent the recording of their



1 entry. If there are no official records of smuggled
2 diamonds, they then can find their way into jewellery
3 which is sold without the Excise Tax of 10 per cent, with-
4 out the Sales Tax of 11 per cent, and in many cases with-
5 out Provincial Sales Taxes.

6 4. When individuals have accumulated large sums of
7 money as a result of income tax evasion, they seek places
8 to invest this money where it can not be traced by the
9 government. Purchasing smuggled diamonds is an excellent
10 way to invest such money. Their investment is protected,
11 in a liquid and highly mobile form of which there is no
12 record either by the vendor or the purchaser.

13 5. Obviously if the discriminatory 10 per cent
14 Excise Tax were removed, this would make the smuggling of
15 diamonds less attractive to everyone concerned and
16 considerably increase sales tax revenues and corporate
17 taxes resulting from increased reported sales.

18 6. In support of our point, may we quote some
19 D.B.S. figures and compare them with similar figures from
20 the U.S.A.:

21 In 1950 our domestic consumption of diamonds
22 was \$6,932,000

23 In 1955 our domestic consumption of diamonds
24 was \$7,946,000

25 In 1960 our domestic consumption of diamonds
26 was \$7,724,000

27 7. During the same ten-year period, our disposable
28 income increased 51.5% and our population 29.9%.
29 Comparable figures in the U.S.A. are as follows:
30



1 1950 consumption of diamonds \$ 92,645,000

2 1955 consumption of diamonds \$138,030,000

3 1960 consumption of diamonds \$140,534,000

4 8. Disposable income in the U.S.A. only increased
5 43.7% and the population increase was only 18.5% during
6 the same years.

7 9. Thus we see that our diamond sales increase
8 during 1950-60 was only about 10%, in comparison with the
9 U.S. increase of 50%, even though Canada's disposable
10 income and population growth was much greater than that
11 of our neighbour.

12 10. It is our contention that if the Excise Tax
13 were removed illegal diamond sales would become far less
14 profitable and diminish.

15 11. The effect of this tax apply to other phases
16 of our industry as well as diamonds. Watches would be a
17 good example inasmuch as it accounts for a large share
18 of jewellery industry sales volume.

19
20 C. RETARDS Growth of Retail Jeweller

21 1. Today the consumer has a wide range of products
22 and services to choose from that are competitive to the
23 jewellery industry and which are not burdened by an unfair
24 Excise Tax. To survive and prosper, the Canadian retail
25 jeweller must retain the confidence of the buying public
26 and he must be in a favourable position to compete for
27 the consumer's dollar with other products in Canada. He
28 must also be able to compete with prices charged for
29 jewellery products in other countries in order to dis-
30 courage foreign purchases and the resultant loss of



business, sales tax revenue and foreign exchange.

2. We feel that as a result of this discriminatory Excise Tax the growth of the Canadian retail jeweller has been retarded. This is proven by D.B.S. figures showing that between 1952 and 1960 the total retail trade in Canada increased from \$11,532,076,000 to \$16,502,079,000 for a gain of over 43%, while jewellery store sales increased from \$115,017,000 to \$134,156,000 for a gain of only 16%.

D. Retards Growth of Manufacturers and Industrial Production

1. It is an accepted principal that increased production results in lower costs and lower prices. Our Canadian manufacturers have a difficult time gaining enough volume production in a market of only 18,000,000 people to enable them to sufficiently compete in the world markets. They must meet the prices of jewellery manufacturers in the U.S., Britain and France who gain a great advantage in serving so many millions of people at home. Every effective increase in production resulting from more purchases of our products, enables our manufacturers to lower their prices. The lower the price the better their chances of selling in the vast markets of the world.

2. As a result of this discriminatory tax, the growth of the jewellery manufacturing industry in Canada has actually been reversed. This is evidenced by D.B.S. figures which show there were 218 jewellery and silverware manufacturers employing 6,299 wage earners in 1950 with value of factory shipments of \$53,310,540. In 1960



1 there were only 228 jewellery and silverware manufacturers
2 with 4,261 wage earners and a value of factory shipments
3 of only \$55,680,326. Taking into consideration price
4 adjustments over a 10-year period, we can see that the
5 actual production of jewellery and silverware has de-
6 creased.

7 3. When compared with an increase in disposable
8 income of 51.5% and an increase in population of 29.9%
9 over the same 10-year period, the drop in employees and
10 the lack of vigorous growth in value of factory shipments
11 is a definite indication that our industry is having
12 great difficulty competing, both here and abroad, for
13 the consumer's dollar.

14 4. Additional proof of the harmful effects of the
15 Excise Tax on our manufacturing industries is the fact
16 that the Canadian consumption of silver has practically
17 been halved between 1949 and 1962.

18 CANADIAN SILVER CONSUMPTION 1949 - 1962

19 Source: D.B.S.

20 STERLING (ounces)

21	1949 - 2,857,245
22	1950 - 2,404,746
23	1951 - 1,702,378
24	1952 - 1,156,206
25	1953 - 1,788,323
26	1954 - 1,388,412
27	1955 - 1,577,930
28	1956 - 1,972,053
29	1957 - 1,896,116
30	1958 - 1,509,971



1 1959 - 1,513,929
2 1960 - 1,645,647
3 1961 - 1,392,825
4 1962 - 1,499,891

5 5. We can also show with D.B.S. figures where the
6 total Canadian sales of sterling has actually fallen
7 despite increases in population, prices and disposable
8 income between the years of 1950 and 1960.

9 TOTAL CANADIAN DOLLAR SALES OF

10 STERLING

11 1950 - \$3,602,206
12 1951 - 3,207,605
13 1952 - 2,388,972
14 1953 - 2,747,692
15 1954 - 2,511,545
16 1955 - 2,454,931
17 1956 - 2,083,917
18 1957 - 2,164,659
19 1958 - 1,176,523
20 1959 - 2,432,105
21 1960 - 2,536,466

22 6. These figures definitely establish the fact
23 that the growth of the silver part of our industry has
24 been retarded and no doubt, part of the cause can be
25 related to our onerous Excise Tax burden. This is even
26 more serious when it is pointed out that practically all
27 sterling silver, both flatware and holloware, is produced
28 in Canada, by Canadian craftsmen using Canadian silver.
29
30



E. Retards Industry investment

1. It is quite apparent that the effect of the Excise Tax on jewellery sales has retarded investment in jewellery enterprises in Canada. As previously shown, in 1950 there were 218 jewellery and silverware manufacturers while in 1960 there were only 228. This slight increase in numbers is also reflected by D.B.S. statistics which shows the capital and repair expenditures of jewellery and silverware manufacturers continually dropping from \$2,220,000 in 1950 to \$1,123,000 in 1960 as per the following figures.

Total Capital and Repair Expenditures
in the Jewellery and Silverware Industry

1950 - 1960	*	Source: D.B.S.
1950		\$2,220,000
1951		1,354,000
1952		1,021,000
1953		1,327,000
1954		991,000
1955		1,116,000
1956		1,669,000
1957		1,280,000
1958		962,000
1959		896,000
1960		1,123,000

2. It is our firm conviction that with lower prices and an increase in sales volume resulting from the removal of the Excise Tax, our manufacturers would require more employees, invest more capital and be in a better position to compete for export markets.



IV EFFECTS OF JEWELLERY EXCISE TAX ON BALANCE OF
INTERNATIONAL PAYMENTS

A. Discourages Exports

1. The Canadian jewellery manufacturer is awakening to the fact that Canadian jewellery products are of excellent design, well crafted and compare favourably with jewellery made anywhere in the world. According to D.B.S. figures, our manufacturers have slightly increased their exports from \$1,440,831 in 1955 to \$1,986,225 in 1960.

2. Our manufacturers complain that short production runs and a small home market continually hamper them when setting up price schedules for export competition. A small increase in production gives them an opportunity to lower prices and compete more favourably.

3. Should our manufacturers gain more export sales, it would aid our nation's balance of international payments.

B. Encourages Imports

1. It is a well known fact in the industry that substantial purchases of fine jewellery and watches are made in the United States and Europe each year by both private individuals and professional jewellery men. Whether this merchandise is smuggled into the country or brought in legally and declared, it still acts as a drain on our balance of international payments when the purchases are made with Canadian funds.

2. We submit that the only way to stop or slow down



1 this loss of business for our manufacturers and drain of
2 dollars for our government is to make it less worthwhile
3 for Canadians to purchase abroad. Removal of the Excise
4 Tax would considerably lower the cost of fine jewellery
5 in Canada and puts our manufacturers in a far better
6 position to compete with foreign sellers.

7
8 V RECAPTURE OF REVENUE AS A RESULT OF REMOVAL OF EXCISE
9 TAX

10 1. We are, of course, cognizant of the fact that
11 the Government requires revenue to operate.

12 2. However, we wish to point out that Excise Tax
13 receipts for our industry represents only \$5,484,290
14 of the Tax's total revenue of \$276,000,000 as reported by
15 the National Revenue Department.

16 3. We also wish to state that we do not feel that
17 the question of revenue is relevant in this case. Our
18 case rests on the contention that the Excise Tax is dis-
19 criminatory, places an inequitable share of the tax
20 burden on our industry, is an industry depressent, and
21 hurts our nation's balance of international payments.

22 4. At the same time that we state our case based
23 on the issues above, we feel we would be remiss if we did
24 not point out to the Commission that in our particular
25 industry the revenue lost by removal of the Tax would
26 more than be recaptured through the following consequences:

27
28 A. Larger Corporation Tax Payments by Industry

29 1. Increased production, sales and profits achieved
30 from the removal of the Excise Tax would result in the



1 payment of larger corporation taxes by jewellery
2 manufacturers and retailers alike. Add to this the add-
3 itional income taxes produced from increased employment
4 at both retail and manufacturing levels and we believe
5 that a fair proportion of the Excise Tax revenue lost
6 would be recaptured.

7
8 B. Recoup of Dollars Lost in Foreign Exchange and Sales
9 Taxes Through Purchases of Jewellery Abroad

10 1. If the Excise Tax were removed, it would lessen
11 the incentive for both private and professional purchasers
12 to spend dollars abroad. The removal of the Tax, coupled
13 with a manufacturer's drive to recapture this market,
14 would result in substantial savings of dollars in inter-
15 national exchange and bring in added revenue through
16 increased corporate profits and taxes.

17
18 C. Recoup of Revenue in Sales Taxes From Merchandise
19 Smuggled Into and Sold in Canada.

20
21 1. The removal of the Excise Tax would remove a
22 good deal of the incentive for smuggling. This would
23 result in a substantial increase in diamond and watch
24 sales through normal channels with resultant increase in
25 Federal and Provincial sales taxes.

26
27 VI JUSTICE FOR OUR INDUSTRY

28 1. We are most grateful to the Government and the
29 Commission for this opportunity to present our case. The
30 retailers, wholesalers and manufacturers of the Canadian



1 Jewellery Industry and the consuming public feel that a
2 consideration of this case is long overdue.

3 2. Although we are a relatively small industry,
4 still thousands of Canadians depend upon this trade for
5 their livelihoods. A high level of employment depends
6 upon public consumption of our products and our ability
7 to export. This in turn depends upon the relative price
8 scale and values of our products in relation to competing
9 industries. Basically all we are asking for is equality
10 in taxation along with other consumer goods industries.

11 3. Because the points set forth in this brief all
12 fall within the terms of references of your Commission
13 and the Government's desire for equitable distribution of
14 tax burdens, stimulation of Canada's industry, more
15 employment, a higher standard of living for the consumer
16 and a better balance of international payments, we
17 sincerely believe our case is just and respectfully ask
18 that the Commission recommend the removal of the 10%
19 Excise Tax as it applies to our industry.

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BRIEF TO THE ROYAL COMMISSION ON TAXATION

submitted by

THE ESTATE PLANNING COUNCIL OF TORONTO

1. The Estate Planning Council of Toronto consists of some seventy Trust Officers, Life Underwriters, Chartered Accountants and Lawyers who specialize in the field of Estate Planning. In their daily activities they encounter and endeavour to counsel individuals who are attempting to so arrange their affairs that their estates will suffer the least possible dislocation and their families will be permitted to enjoy to the fullest possible extent the fruits of a lifetime of labour.

2. Among the many problems which the members of The Estate Planning Council of Toronto encounter there are two which cause them special disquiet. They are:

(i) The difficulties of either continuing a family or small business or effecting a satisfactory sale thereof after the death of a principal.

(ii) The increasing tendency of wealthier persons to leave Canada in order to avoid the impact of taxes.

3. The submissions contained in this Brief are made in the light of the foregoing considerations and refer to the two Statutes which are responsible for these problems, the Estate Tax Act and The Income Tax Act.

THE ESTATE TAX ACT

4. The submissions in connection with this Statute may conveniently be arranged under three principal headings.

A. The Nature of the Tax.



1 B. The Significance of the Tax to the Exchequer.

2 C. Certain Administrative Problems.

3 A. - The Nature of the Tax

4 5. The Estate Tax is unique in Canada in that it
5 constitutes the taking of capital by the State. It is not
6 based upon price or cost. It is not based upon income.
7 It is not geared to capacity to pay, and by its very nature
8 involves an expropriation of a portion of the capital
9 assets of the decedent.

10 6. The Estate Planning Council of Toronto recognizes
11 that in the Seventh Decade of the Twentieth Century it would
12 probably be impossible from both the social and political
13 points of view to eliminate capital levies upon death. At
14 the same time, it is submitted that it is of critical impor-
15 tance to Canada to so arrange our taxing Statutes as to
16 encourage the retention in Canada of the ownership of
17 Canadian enterprise and to encourage the development of
18 capital within Canada.

19 7. When the capital levy at death becomes confisca-
20 tory, or requires the liquidation at sacrifice prices of a
21 business venture, serious problems result. It is submitted
22 that this is one of the reasons why certain taxpayers are
23 forsaking Canada, and also why the control of much of our
24 heritage is being sold to foreign investors.

25 B. - The Significance of the Tax to the Exchequer

26 8. The most recent figures available, being those
27 for the fiscal year ending March 31st, 1961, indicate that
28 death taxes collected for the account of the Federal Govern-
29 ment amount to approximately 1.5% of the Federal budget.
30 The following breakdown by size of estate indicates the



1 sources of the amount so raised:

2	<u>Net Value</u> <u>of Estate</u>	<u>Number of</u> <u>Estates</u>	<u>Percentage</u> <u>of Total</u>	<u>Tax</u> <u>Imposed</u>	<u>Percentage</u> <u>of Total</u>
3	\$ 50,000 to				
4	99,000	1923	55.71	\$ 6,440,000	7.7
5	\$100,000 to				
6	999,999	1492	43.18	51,347,000	61.9
7	\$1,000,000				
8	and over	37	1.11	25,189,000	30.4
9		<u>3452</u>	<u>100.00%</u>	<u>\$82,976,000</u>	<u>100.00%</u>

10 9. The foregoing table reveals that only 7.7% of the
11 total amount raised in the 1960-1961 year under both the
12 Dominion Succession Duty Act and the Estate Tax Act was
13 collected from almost 56% of the number of taxable estates.
14 This amounts to approximately one-tenth of one percent of
15 the National Budget. It is submitted that the removal of
16 these estates from the taxable category would result in
17 relatively little loss of revenue, in substantial assis-
18 tance to the small businessman and proprietor, and a signi-
19 ficant reduction in the work of the Department.

20 C. - Certain Administrative Problems

21 10. Three of the ten provinces are now levying
22 succession duties. In each case it is alleged that the
23 loss of revenue under the existing Tax Agreements is the
24 reason for this duplication. From the standpoint of the
25 taxpayer confusion, expense and delay result. It is
26 extremely difficult for an individual to plan his affairs
27 intelligently when several taxes with differing bases are
28 to be levied on the same assets.

29 11. It is submitted that there would be a substantial
30 saving to governments and taxpayers throughout Canada if a



1 single tax under a single Statute was imposed upon death.
2 There appears to be no sound reason why the Provincial
3 share need be fixed at an amount equal to that retained by
4 the Federal Government. If Ontario, for example, wished to
5 receive a larger amount this could be agreed between the
6 Governments and a form could easily be developed for
7 Ontario estates which would indicate clearly that the
8 Dominion was to receive fifty cents of each dollar of
9 normal estate tax, while the Province would receive, e.g.,
10 seventy cents. In other words, an Ontario estate would pay
11 twenty per cent more than a Manitoba estate, assuming Mani-
12 toba to be content with the present fifty-fifty split.
13 Precedent for this procedure is found in The Income Tax Act.

14 12. One of the most crippling features of the Estate
15 Tax is the necessity for settlement of the tax within six
16 months of the date of death. Provided that a non-liquid
17 estate furnishes proper security and interest is charged,
18 there would seem to be much in favour of permitting the
19 liability for tax to be settled over a longer period.

20 13. It has been stated that it is easier administra-
21 tively to determine values as of the date of death. It is
22 a truism that this is the one date upon which no asset can
23 be sold. It is also a fact that other jurisdictions permit
24 optional dates of valuation. The present system in many
25 cases imposes substantial hardship. An alternative valua-
26 tion date is therefore urged.

27 RECOMMENDATIONS

28 14. The following recommendations are therefore made:
29 (1) All estates with a net value of less than
30 \$100,000 should be exempted from Estate Tax.



(ii) Rates of tax should continue to be progressive, but there should be a top rate of not more than thirty per cent.

(iii) Foreign estates should be subject to a higher rate of tax on equities than on other categories of Canadian assets.

(iv) The Provinces should vacate the field of death duties, but have the right to set their share of the total amount collected by the Dominion.

(v) The period for payment of tax should be extended to five years from the date of death.

(vi) Assets should be valued either at the date of death or six months after the date of death at the option of the taxpayer, provided that any asset sold in this period should be valued in the amount actually received.

THE INCOME TAX ACT

15. The most difficult and aggravating problem created by The Income Tax Act that is encountered by the members of The Estate Planning Council of Toronto is that of earned, accumulated and designated surplus. The present involved statutory provisions incline individuals to arrange matters artificially and lead to uneconomic and complex dispositions.

16. The Estate Planning Council of Toronto does not feel itself competent to make specific recommendations in this area. It is strongly of the opinion, however, that substantial simplification and clarification is required, and that this whole area is in most urgent need of extensive



1 reappraisal and revision.

2 CONCLUSION

3 17. The Estate Planning Council of Toronto appreciates
4 the opportunity of placing these views before The Royal
5 Commission on Taxation. It looks forward to its represen-
6 tatives being given an opportunity to expand upon them at
7 the Public Hearings should the Royal Commission decide that
8 such a course would be helpful.

9 Toronto, Ontario
10 April 5, 1963
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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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5 SUBMISSION

6 OF THE

7
8 CONFECTIONERY ASSOCIATION OF CANADA

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11 TO

12 THE ROYAL COMMISSION ON TAXATION
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THE CONFECTIONERY ASSOCIATION OF CANADA

May 1, 1963

Mr. Kenneth Le M. Carter, F.C.A.
Chairman, and Commissioners,
The Royal Commission on Taxation,
Ottawa, Canada.

Gentlemen:

1. The Confectionery Association of Canada welcomes this opportunity of appearing before the Royal Commission on Taxation for the purpose of making recommendations which, in our opinion, will permit the Canadian Confectionery industry to grow and thereby contribute to economic well being of Canada.

2. The Confectionery Association of Canada was founded in 1919 as a non-profit and non-political organization of confectionery manufacturers who joined together to consider and take action on their common problems. Its members are responsible for about eighty per cent of the total manufacture and production in Canada of cocoa, chocolate and confectionery products. Large, small and medium-sized confectionery manufacturers are included in the Association.

Summary of Recommendations

3. It is recommended that confectionery products be placed in the "federal-sales-tax-exempt" category. Such an exemption would result in the stimulation of domestic and foreign trade, a direct growth of the Canadian Confectionery Industry through increased



1 production and thereby a contribution to the economic
2 well-being of Canada.

3 4. Failing the placing of Confectionery products
4 in the "federal-sales-tax-exempt" category, it is
5 recommended that there be implemented a sales tax policy
6 which would result in an equitable impost on both
7 domestic and imported products.

8 5.. It is recommended that the personal income tax
9 rate structure be based on proportionality rather than
10 graduation, thereby giving due recognition to equality
11 of the individual before the law and eliminating dis-
12 crimination against the minority upper income brackets.
13 The current graduated personal income tax rate structure
14 has a detrimental effect on the incentive of the individual
15 seeking additional return for addition effort. The
16 impact of progression is hardest felt as the individual
17 moves to the middle and upper income brackets where are,
18 or should be, found the prime sources of Canada's capital
19 formation and hence economic growth.

20 6. It is recommended that corporation income tax
21 rates be substantially reduced. While comparatively still
22 in the developing stage as an industrial and manufacturing
23 nation, Canada has corporation tax rates at levels as
24 high or higher than most of the leading industrial and
25 manufacturing countries of the world. Every incentive
26 must be given by the government to enable the Canadian
27 manufacturer to effectively compete both at home and
28 abroad, increase production, employment, and provide the
29 economic growth of our country.

30 7. It is recommended that duties under Tariff Items



1 numbers 20a and 77a (cocoa beans and cocoa butter) be
2 rescinded. Such duties were imposed as a result of the
3 Canada - B.W.I. - Bermuda - British Guiana - British
4 Honduras Trade Agreement of 1925, an Agreement, we submit,
5 which serves no useful purpose.

6 Exemption of Confectionery from Federal Sales Tax
7

8 8. Of the many foods consumed by Canadians,
9 confectionery products remain subject to federal sales
10 tax in spite of the fact that its ingredients are highly
11 nutritious, and admittedly tax-free, foods such as sugar,
12 butter, milk and cream, eggs, starch, flour, honey, cocoa,
13 nuts etc. Our purchases of such materials are substantial;
14 amounting, in 1960, the last year for which such statistics
15 are available, to \$71,990,802. The value added by
16 manufacture during that year was \$70,432,168 with a selling
17 value of factory shipments of \$142,963,856. The amount
18 of federal sales tax collected from the Canadian
19 Confectionery Industry approximated \$15,000,000.

20 9. As a major consumer of Canadian dairy and
21 agricultural products, the Industry is a contributor to
22 Canada's agricultural economy; as a user of packaging
23 and related materials it contributes substantially to
24 Canada's pulp and paper industry; as a direct employer of
25 approximately 10,000 people in an Industry where tens of
26 thousands are employed indirectly in the sale and distri-
27 bution of its products, the Confectionery Industry is an
28 effective factor in the much to be desired employment of
29 Canadians.

30 10. The Industry contributes, by its purchase of



1 raw materials such as cocoa beans, cocoa butter, peanuts,
2 walnuts, cocoanut, cane sugar, et cetera, to the wealth
3 of many nations, many of which are developing countries
4 and members of the British Commonwealth of Nations. By
5 the importation of such ingredients, the Industry plays
6 an important role in the creatbn of a favourable trade
7 balance between Canada and such countries, as a result
8 of which they are able to purchase not only our tradition-
9 al exports such as fish, lumbs, powdered milk, flour,
10 et cetera, but products of Canada's secondary Industry.

11 11. We strongly urge that confectionery products be exempt
12 from federal sales tax thus stimulating the growth and
13 production of our inudstry which, in turn, would result
14 in our purchase of greater quantities of Canadian dairy and
15 agricultural products, the utilization of more Canadian
16 made packaging materials and therefore a direct (and
17 indirect) contribution to the general well-being of the
18 Canadian economy.

19 12. That the exemption of our products from federal
20 sales tax would result, through other forms of taxation,
21 in a revenue equivalent to or greater than the \$15,000.00.
22 collected as "sales tax" from our industry is difficult
23 to prove. However, we may be able to show that our
24 industry reacts quickly when given an incentive for
25 greater production.

26 13. It was not long ago that the Canadian dollar was
27 devalued - it was only last June that tariff surcharges on
28 imports of confectionery and certain confectionery raw
29 materials were imposed. Last October, the impost of
30 surcharges on confectionery raw materials, simply not



1 available out of Canadian agriculture, was lifted. One
2 might therefore say that we had the full protection of
3 the surcharge for only a little more than two months,
4 partial protection for a little over six months, and a
5 full year's protection of dollar devaluation, from the
6 impact on the Canadian market of foreign confectionery.

7 14. The reaction was that the per capita consumption of
8 Canadian made confectionery increased from 11.98 pounds
9 in 1961 to 13.15 pounds in 1962. Further, the following
10 statistics from the Dominion Bureau of Statistics for the
11 twelve month period ended 31 December 1962 as compared to
12 the twelve month period ended 31 December 1961 will give
13 evidence of increased production activity.

14 a) Chewing Gum.....Increase 14.27%

15 b) Chocolate Bars:

16 - Less than 10¢, moulded.....Increase 12.93%

17 - 10¢ Bars, moulded.....Increase 17.21%

18 - 10¢ Bars, coated.....Increase 7.60%

19 - Bars over 10¢.....Increase 12.07%

20 c) Chocolate Confectionery in Bulk..Increase 8.75%

21 d) Chocolates, boxed and packaged..Increase 10.75%

22 e) Moulded Novelties.....Increase 44.97%

23 f) Sugar Confectionery.....Increase 8.95%

24 g) Peanuts, roasted and salted.....Increase 9.10%

25 h) Penny Goods.....Increase 15.01%

26 Regrettably, statistics on imported confectionery for the
27 fourth quarter of 1962, and, therefore, for the twelve
28 month period ended 31 December 1962 were not available.
29 However, for the nine month period ended September 1962
30 as compared with a similar period in 1961, the following



1 are some of the outstanding decreases:

- 2 a) Chocolates, packaged for retail sale..Decrease 47.38%
- 3 b) Confectionery, coated with or
- 4 containing chocolate, n.o.p.....Decrease 16.85%
- 5 c) Sugar Candy and Confectionery, n.o.p..Decrease 9.15%
- 6 d) Chocolate preparations, n.o.p.....Decrease 12.65%

7 It is expected that, when availab,e statistics for the
8 fourth quarter, 1962, when the full impact of the tariff
9 surcharge was felt, will further decrease the percentage
10 of the confectionery market in Canada enjoyed by foreign
11 imports for the year 1962.

12 15. The foregoing statistics relate to increases in
13 poundage, not sales, and therefore directly reflect the
14 increased purchases and production enjoyed by the industry.
15 While other factors may have contributed to this activity,
16 surely the temporary tariff surcharge on imports had its
17 effect.

18 16. Were the industry's products to be sales tax exempt
19 not only could we continue to better compete with imported
20 confectionery, but, the stimulus of competing "fairly
21 and squarely" with other food products enjoying such
22 exemption would have very significant and almost
23 immediate results. Increases in our purchasing and prod-
24 uction activities provide wealth and employment, which,
25 we submit, through otherforms of taxation, would result
26 in a more substantial and non-discriminating revenue to
27 the government.

28 Application of Federal Sales Tax

29 17. Like many other Canadian industries, we have felt,
30 and will feel again, the pressure and inroads made by



1 imported products. The Canadian per capita consumption
2 of confectionery, including domestic and imports, has
3 remained virtually static for the last ten years. In
4 1960, imports were equal to 24.6% of Canadian production,
5 - an all-time high representing an increase of approx-
6 imately 70% over 1955. As with other industries, the
7 obvious factors which have resulted in the introduction
8 into Canada of imported products are lower labour costs
9 and a more concentrated market (and thereby a more econ-
10 omical production) within the exporting country.

11 18. The Excise Tax Act provides that the base on which
12 Federal Sales Tax is assessed is the manufacturer's selling
13 price to wholesalers which price includes the manufact-
14 urer's selling and distribution costs, overhead and profit.
15 For imported products the Act provides that the base be
16 the "duty paid value" which is, in fact, the manufact-
17 urer's price to distributors in the home market plus duty
18 if applicable. Since federal sales tax on products prod-
19 uced in Canada is assessed on the costs incurred by the
20 manufacturer in placing his product in the hands of the
21 wholesaler in Canada, it would seem reasonable that
22 imported products be taxed at that same level.

23 19. This difference in base upon which federal sales tax
24 is applied places domestic manufacturers at a distinct
25 disadvantage in meeting import competition. The United
26 Kingdom levies its purchase tax on imported products,
27 as on all products, on their wholesale value in the
28 United Kingdom; the United States applies its excise tax
29 on both domestic and imported products on the price of the
30 product in condition for delivery to the purchaser in the



1 United States.

2 20. While continuing to urge that federal sales tax be
3 removed from all confectionery products, giving them their
4 recognized classification as "food", the Confectionery
5 Association of Canada recommends strongly that the Govern-
6 ment equalize the base upon which federal sales tax is
7 computed for products of domestic and foreign manufacture.
8 This recommendation should result in greater revenue to
9 the Canadian Government.

10 Personal Income Taxes

11 21. We feel, as Canadian citizens, that the alarm of the
12 lack of incentive given to Canadians to invest in Canada,
13 its natural resources and its industries, is well-founded.
14 Our tax structure does not provide the individual who,
15 by his aggressiveness and intelligence, has achieved a
16 measure of personal success based on income, with the nec-
17 essary desire or resource to invest in his country. Further
18 at some level of personal development, he may, by the
19 current graduated tax scale, be diverted from seeking
20 additional gain from which he, his industry and Canada may
21 gain immeasurably.

22 Special duties resulting from International Trade Agreements

23 22. Canada - British West Indies - Bermuda - British
24 Gulana - British Honduras Trade Agreement, 1925

25 Under the terms of the abovementioned agreement, Canada
26 granted preferential tariff rates on cocoa beans and cocoa
27 butter imported from the participating countries, and sub-
28 sequently withdrew the preference hitherto enjoyed by the
29 then British possessions in West Africa to the west of the
30 Niger river (Order in Council no. 520, dated 22nd March,



1 1927.)

2 23. It is our contention that the reasons for this agree-
3 ment, insofar as cocoa bean and cocoa butter imports are
4 concerned, are long since invalid, and that it therefore ser-
5 ves no further useful purpose. We submit, for the follow-
6 ing reasons, that the British West Indies Government should
7 be approached with a view to finding ways and means of
8 rescinding those clauses under which the duties on
9 West African cocoa beans and cocoa butter were imposed:

10 (a) The agreement provides that countries which do not
11 give tariff benefits to Canada shall not enjoy
12 preference on cocoa beans imported into Canada.
13 The West African colonies were prevented from
14 giving preference to Canada under the terms of
15 the Niger River Convention between the Nether-
16 lands and the United Kingdom, signed in 1871.
17 This Convention might now be held to be out of
18 date.

19 (b) In spite of the tariff imposed by the B.W.I.
20 agreement, cocoa beans and cocoa butter shipped
21 from areas east of the river Niger and still
22 accorded preferential rates, irrespective of
23 where in Nigeria cocoa beans are grown. Unfort-
24 unately, very little is shipped from these
25 areas as the ports are not navigable by trans-
26 Atlantic vessels.

27 (c) When the B.W.I. agreement was signed, some 5% of
28 the world's cocoa beans were being produced in
29 that territory; production has now fallen to less
30 than 1% in the B.W.I., a sizable portion of which



1 is processed there, thus reducing still
2 further the quantity available for export.

3 (d) Since B.W.I. cocoa beans are used essentially
4 for blending or flavouring purposes, Canadian
5 manufacturers will continue to buy them
6 regardless of their being priced higher than
7 the "bulk" West African cocoa beans. Accord-
8 ings, B.W.I. gains little or nothing from the
9 preferential treatment accorded to her under the
10 abovementioned agreement.

11 (e) For the reason mentioned in paragraph (c),
12 Canadian cocoa bean importers were forced to seek
13 alternative sources of supply. These they found
14 in West Africa, where they purchased despite
15 Canadian import duties. Approximately 70%
16 of Canadian imports of cocoa beans now come from
17 Ghana and Nigeria, both being independent states
18 within the British Commonwealth, who by reason of
19 the abovementioned agreement are denied tariff
20 preference.

21 (f) As heretofore mentioned, Canadian confectionery
22 manufacturers are beset by the flow of foreign
23 imports. These duties (1¢ per pound on cocoa
24 beans and 2½¢ per pound on cocoa butter) impose
25 an extra burden in combating such foreign competi-
26 tion inasmuch as certain foreign confectionery
27 manufacturers have the advantage of "duty-free"
28 cocoa beans and cocoa butter.

29 24. We understand that when the said duties on cocoa
30 beans and cocoa butter were first imposed, the Canadian



1 Government stated that they were not intended as revenue"
2 but rather as protection for the British West Indies.
3 We firmly believe that such protection is now unnecessary
4 and that our trade relations with the B.W.I. would
5 not suffer were these duties to be rescinded. Relief
6 from such duties would materially assist the Canadian
7 Confectionery Industry in meeting foreign competition and
8 result in greater "value for the dollar" to the Canadian
9 consumer of confectionery products.

10 25. We therefore urge that the duties under Tariff
11 Items numbers 20a and 77a be removed from all imports of
12 cocoa beans and cocoa butter.

13 Conclusion

14 26. In conclusion, the Confectionery Association of
15 Canada would like to express its appreciation for this
16 opportunity of appearing before you, and would like to
17 emphasize its desire, on behalf of the Confectionery
18 Industry of Canada, to contribute to the economic
19 growth of well-being of Canada.

20 Respectfully Submitted,

21 Confectionery Association of Canada

22
23 C.A.L. Sullivan

24 General Manager
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1 CONFECTIONERY ASSOCIATION OF CANADA

2 44 King Street West

3 Room 2523

4 Toronto, Ontario

5 May 7th, 1963

6
7 Mr. Kenneth LeM. Carter, F.C.A.,

8 Chairman, and Commissioners,

9 The Royal Commission on Taxation,

10 Ottawa, Canada.

11 Gentlemen:

12
13 1. On Friday, May 3, 1963, we forwarded to you
14 thirty-five or more copies of our submission. On page 4,
15 paragraph 14, of such document we expressed our regrets
16 that statistics on imported confectionery for the fourth
17 quarter of 1962, and, therefore, for the twelve month
18 period ended December 31, 1962 were not, at that time,
19 available.

20 Such statistics are now available and we
21 hasten to apprise you of them. As predicted, they further
22 decrease the share of the Canadian confectionery market
23 enjoyed by foreign competition. Set out below is a
24 comparison of imports for the full years 1961 and 1962,
25 and a comparison of imports for the fourth quarter of 1961
26 with that of 1962, the period when, we feel, the impact
27 of the temporary tariff surcharge was greatest:



January to December

	<u>1961</u>	<u>1962</u>	<u>Decrease (%)</u>
a) Chocolates,			
packages for			
retail sale	2,762,588 lb.	1,322,051 lb.	52.15
b) Confectionery,			
coated with or			
containing			
chocolate, n.o.p.	8,785,801 lb.	6,804,615 lb.	22.55
c) Sugar Candy and			
Confectionery,			
n.o.p.	26,061,458 lb.	21,555,783 lb.	17.29

October to December

	<u>1961</u>	<u>1962</u>	<u>Decrease (%)</u>
a) Chocolates, packaged			
for retail sale	1,275,182 lb.	539,320 lb.	57.71
b) Confectionery,			
coated with or			
containing choc-			
olate, n.o.p.	3,249,089 lb.	2,200,851 lb.	32.26
c) Sugar Candy			
and Confectionery,			
n.o.p.	8,244,449 lb.	5,369,081 lb.	34.88

3. While the effects on our industry of the temporary tariff surcharge were certainly pleasant, we wish to make it abundantly clear that we do not seek tariff protection which, we feel, is not in the best interests of the Canadian economy as a whole. Rather, we seek the



1 right to compete fairly with other foods that are favoured
2 with exemption from the payment of the "built-in" federal
3 sales tax the more secure permanency of being treated
4 as an equal.

5 Respectfully submitted,

6 CONFECTIONERY ASSOCIATION OF CANADA,
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10 CALS/MB

C. A. L. Sullivan,
General Manager.

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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

TORONTO

ONT.

VOLUME No.:

DATE:

23A

May 17 1963

OFFICIAL REPORTERS

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TORONTO, ONTARIO

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6 SUBMISSION

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8 TO

9
10 THE ROYAL COMMISSION ON TAXATION

11
12 BY

13
14 ANACONDA AMERICAN BRASS LIMITED

15 EIGHTH STREET, NEW TORONTO

16 ONTARIO
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1 SUMMARY OF CONCLUSIONS

2 1 This submission deals with the corporation
3 income tax and the manner of calculation of income from a
4 business subject to income tax, and consequently bears on
5 the following specific terms of reference of Order in
6 Council P.C. 1962-1334, namely, "to provide information
7 and make recommendations concerning:

8 a) the distribution of burdens among taxpayers
9 resulting from existing rates, exemptions,
10 reliefs and allowances provided in the personal
11 and corporation income taxes , and
12 f) the changes that may be made to achieve
13 greater clarity, simplicity and effectiveness
14 in the tax laws or their administration."

15 2. The main recommendations of this brief, in the
16 order in which they are developed are as follows:

17 (a) The use of the corporation income tax as an
18 instrument of taxation should be reduced, or
19 even eliminated over the long run. There is no
20 logical reason for levying a tax on corporation
21 income, as such, since the concept of "ability
22 to pay" has no relevance to a corporation,
23 and since a mere tax on business activity is
24 better levied in a form other than an income
25 tax.

26 (b) The definition of business income made subject
27 to tax should have regard to developed commer-
28 cial practices in the determination of income.
29 Special deductions from taxable income to
30 provide economic incentives should be used with



1 great caution because, (a) if they are to be effective
2 they must be significant in amount and therefore
3 contribute to the erosion of the tax base, (b) they
4 tend to cause discrimination between taxpayers
5 because artificial yardsticks are set up for measure-
6 ment of achievement of the right to the incentive,
7 and (c) the administration of the Act is greatly
8 complicated by the necessity to distinguish between
9 those taxpayers who are and are not entitled to the
10 incentive.

11 (c) Specific amendment to existing legislation is needed
12 to correct the present legal situation whereby income
13 determined using the LIFO (last-in first-out)
14 inventory costing assumption is not accepted as
15 income for taxation purposes, in spite of its
16 acceptability for commercial account purposes. The
17 LIFO method is the method that most closely reflects
18 the true income of a business carried on in a
19 certain way and the denial of its acceptability for
20 taxation purposes effectively means that certain
21 business taxpayers are not taxed on their real income,
22 which is inequitable, and frequently burdensome on
23 the taxpayers. A suggested amendment to the Regulations
24 to the present Income Tax Act permitting the use of
25 LIFO for tax purposes is included in Appendix A.

26 (d) Legislative sanction of the use of LIFO could
27 be restricted to those taxpayers who particular
28 circumstances make LIFO most appropriate for
29 income determination, or it could be made
30



generally available to all taxpayers. There are persuasive arguments that would support the extension of permission to use LIFO to all taxpayers. These, however, are arguments of policy whereas arguments in favour of a restricted right to use LIFO are made on the grounds of equity. The right to use LIFO ought, in equity, to be granted on a restricted basis, whether or not it is granted generally.

THE RATIONALE OF THE CORPORATION INCOME TAX

3. The discussion in this brief is confined primarily to the taxation of income from business and does not consider other forms of taxation such as the sales tax. Also, since the great bulk of Canadian business is carried on by corporations, our reference is mainly to the corporation income tax.

4. By way of preface, however, we raise the question of why there should be a corporation income tax at all. Questions such as this can only be answered by reference to some basic philosophy of taxation, and we presume your Commission will want to, -- indeed will have to -- agree upon some fundamental postulates from which its detailed conclusions and recommendations will flow. For example, the following simple propositions (among others) will no doubt be considered and accepted or rejected by you:

(a) Because the needs of government for revenue are ever-recurring, a substantial portion of the revenue should be raised by taxes that produce a steady yield. The best forms of



1 taxation, by this criterion, would be the sales,
2 turnover, expenditure or consumption taxes, and
3 their variants.

4 (b) The taxation system should have some regard to
5 ability to pay. This consideration is urged by
6 some as the primary justification for the income
7 tax.

8 (c) The taxation system should be neutral in its
9 effect on the economy, or alternatively the
10 system should be capable of giving direction to
11 the economy through changes of rates, forms of
12 taxation, etc.

13 Obviously, the weight given to each of such propositions is
14 as important as their acceptance or rejection.

15 5. In our opinion, the corporation income tax is
16 not particularly well-suited to meet any of the consider-
17 ations mentioned above. At present, except for the low
18 rate of tax on the first block of taxable income, it is
19 levied at a flat rate. In this form, it becomes, in large
20 measure, merely a tax on business activity just as the
21 sales tax is, and the question arises whether it is good
22 for the economy as a whole to levy a tax that bears on
23 profitable business activity and not on unprofitable
24 activity. It would seem that such a tax is likely to
25 bear most heavily on the dynamic sectors of the economy
26 on which we depend for growth.

27 6. Furthermore, the consideration of "ability to
28 pay" has no relevance to a corporation; ability to pay
29 only has meaning in relation to an individual. The fact
30 that a corporation is a person for purposes of the law



1 of contract, and commercial law generally, is misleading
2 for taxation purposes. One cannot measure the ability to
3 pay of an artificial person such as a corporation, any
4 more than one can measure the ability to pay of a machine.
5 In our opinion, therefore, income taxes can only logically
6 be levied on natural persons.

7 7. For the foregoing reasons, we believe that it
8 would be wise to substitute other forms of taxation for
9 the corporation income tax. We recognize, of course,
10 that because of the large amounts of revenue raised by
11 the corporation tax, a complete substitution of, say, a
12 sales tax for corporation income tax would not be feasible
13 unless it took place gradually over an extended period.
14 It, therefore, remains important that any tax on corporation
15 income (and on unincorporated business income) be made as
16 equitable and efficient as possible.

17
18 THE MEANING OF "INCOME"

19 8. "Income tax, if I may be pardoned for saying so,
20 is a tax on income" (London Country Council v. Attorney-
21 General, (1901) A.C.26) said Lord Macnaghten in one of
22 those judicial apothegms that tend to be quoted more often
23 than is perhaps justified by their intrinsic wit. The
24 dictum displays little uncertainty about the meaning of
25 "income", but this assurance is rarely shared by lawyers,
26 economists, accountants and others whose business it is
27 to reflect upon the nature of income. For example, the
28 Study Group on Business Income (The Study Group was
29 sponsored by the then American Institute of Accountants and
30 the Rockefeller Foundation. It consisted of about fifty



1 members of different backgrounds, principally law,
2 accounting, economics, and finance. It published a number
3 of studies in the period 1949 to 1952, and a report
4 entitled "Changing Concepts of Business Income".) in its
5 final report said:

6 "It is manifest that no single method of
7 implementation of a single concept of income
8 can in itself meet all the needs of those who
9 use income determination as a guide to action
10 of one sort or another. The point that income
11 is defined differently for different purposes
12 emerges from any discussion of economic, legal,
13 or accounting history of the problem."

14 - Page 107, para. 22.

15 9. This being so, it might be expected that the
16 meaning of income would be defined in any statute levying
17 a tax upon income. But such is not the case in Canada.

18 For example, the Canadian Income Tax Act states:

19 "Sec. 3. The income of a taxpayer for a taxation
20 year for the purposes of this Part is his income
21 for the year from all sources inside or outside
22 Canada, and without restricting the generality
23 of the foregoing, includes income for the year
24 from all

- 25 (a) businesses
26 (b) property, and
27 (c) offices and employments."

28 This indicates the sources from which income is derived
29 but not what income is.

30 Then in section 4 --



1 "Sec. 4. Subject to the other provisions of
2 this Part, income for a taxation year from a
3 business or property is the profit therefrom
4 for the year."

5 This merely substitutes the undefined word "profit" for
6 the word "income".

7 10. In the United States, the basis for the Federal
8 income tax is the Sixteenth Amendment to the U.S. Con-
9 stitution which became effective in 1913. This amendment
10 does not define the word "income" but the Supreme Court
11 has said, "Income within the meaning of the Sixteenth
12 Amendment is the fruit that is borne of capital ...
13 With few exceptions, if any, it is income as the word is
14 known in the common speech of man." (U.S. v. Safety Car
15 Heating & Lighting Co., 297 U.S. 88,99 (1936)) In
16 another case, the Court said, "Income may be defined as
17 gain derived from capital, from labour, or from both
18 combined, including profit gained through the sale or
19 conversion of capital." (Bowers v. Kerbaugh-Empire Co.,
20 271 U.S. 170 (1926)). The Internal Revenue Code itself
21 states, "Taxable income shall be computed under the
22 method of accounting on the basis of which the taxpayer
23 regularly computes his income in keeping his books," but
24 " . . . if the method used does not clearly reflect
25 income, the computation of taxable income shall be made
26 under such method as, in the opinion of the Secretary
27 or his delegate, does clearly reflect income." (Internal
28 Revenue Code- Section 446). Thus the Code relies first
29 upon the taxpayer's own accounting methods, but also
30 evaluates them in the light of an independent standard



1 of the meaning of income, which standard, in practice,
2 must be provided by what is normal for business generally.

3 11. In this, the Code has merely followed the long
4 established practice in England as evidenced by dicta in
5 early cases. For example, in the Sun Insurance case,
6 Lord Moulton said, "We have it by our own reasoning, and
7 I think by the action of all commercial men, that the
8 proper way to ascertain profit . . ." (Sun Insurance
9 Office v. Clark (1912) A.C.443 (underlining added).
10 Similarly, in Smith versus The Lion Brewery Company,
11 Lord Justice Farwell said, "The expression 'profit of a
12 trade' bears its ordinary signification as used by
13 business men in business". (Smith v. The Lion Brewery
14 Co. Ltd. (1911) A.C.150). Also in the Usher Brewery case,
15 Lord Loreburn said, "Profits and gains must be estimated
16 on ordinary principles of commercial trade". (Usher's
17 Wiltshire Brewery, Ltd. v. Bruce (1915) A.C.433).

18 12. In some cases, the courts went on to indicate
19 how the commercial practice applied. For example, in the
20 Spanish Prospecting Company case, (Spanish Prospecting
21 Co. (1911) 1 ch. 92) Lord Justice Fletcher Moulton said,
22 "The word 'profits' has in my opinion a well
23 defined legal meaning, and this meaning coin-
24 cides with the fundamental conception of 'profits'
25 in general parlance, although in mercantile
26 phraseology the word may at times bear meanings
27 indicated by the special context which deviate
28 in some respect from this fundamental signifi-
29 cation. 'Profits' implies a comparison between
30 the state of a business at two specific dates



1 usually separated by an interval of a year.
2 The fundamental meaning is the amount of gain
3 made by the business during the year. This can
4 only be ascertained by a comparison of the
5 assets of the business at the two dates."

6 13. Fundamentally, therefore, it may be said that
7 the Courts have held that what was business income, was,
8 in the absence of specific provisions of law to the
9 contrary, to be determined by business practice. The
10 words "in the absence of specific provisions of law to
11 the contrary", however, constitute a most important
12 reservation in the foregoing general statement.
13 Differences between income determined as a matter of
14 business practice, and income determined for taxation
15 purposes tend to proliferate as the years pass. These
16 differences frequently arise because of concessions made
17 in the law to special interests or for special purposes,
18 for example, the "production incentives" contained in
19 the 1962 amendments to the Income Tax Act. They may also
20 arise because the Courts occasionally interpret
21 the taxing statute legalistically, giving too much weight
22 to rules deduced from previous decisions, and not enough
23 to the plain business meaning of "income". No better
24 example of this can be provided than the decision of the
25 Judicial Committee of the Privy Council in the Anaconda
26 case (M.N.R. v. Anaconda American Brass Ltd. 55 DTC 1220)
27 to the effect that since a previous decision had held
28 that inventory should be valued at the lower of cost or
29 market in the process of determining income, this method
30 of income determination must be followed in every case,



1 and furthermore, in valuing the inventory, "cost" could
2 not be determined using accepted accounting rules but must
3 represent the actual outlay for each item in the inventory,
4 as nearly as that could be determined. The cumulative
5 effect of such differences may indeed be so great that
6 income subject to taxation can only be described in the
7 words of Lord Wrenbury as "such income as is within the
8 Act taxable under the Act". (Whitney v. C.I.R. (1925),
9 10 TC 113).

11 THE PLACE OF INCENTIVES IN INCOME TAX LEGISLATION

12 14. A number of sections of the Canadian Income Tax
13 Act are devoted to the provision of "incentives" of one
14 sort or another. These may operate by way of permitting
15 special reductions from income computed in the normal
16 fashion, or special credits against the tax computed on
17 normal income. In view of the argument that income is a
18 particularly appropriate basis for taxation, close
19 scrutiny should be given to provisions that permit certain
20 taxpayers to pay tax on less than their full income.

21 15. Incentives offered may be classified into two
22 general types:

- 23 1. Incentives offered taxpayers to perform some
24 activity they would not otherwise perform, and
- 25 2. Incentives offered taxpayers to spur either
26 a particular activity, or general activity,
27 over the existing level.

28 The distinction between the two types is well illustrated
29 by the Scientific Research provisions of the Act. Under
30 section 72, all expenditures on scientific research,



1 whether of an income or capital nature, may be deducted
2 in computing income. This is an incentive of the first
3 type mentioned above. Under section 72A added in 1962,
4 a corporate taxpayer may also claim an additional 50%
5 of the amount of such expenditures in excess of expendi-
6 tures incurred in a base year (i.e., the last taxation
7 year that ended before April 11, 1962). This is an
8 incentive of the second type. In our opinion, incentives
9 of the first type have their place but should be used
10 with caution, while incentives of the second type are
11 discriminatory between taxpayers and wholly unsound.

12 16. In granting the first type of tax incentive,
13 the Government is trying to promote activities that the
14 normal incentives of the market have failed to promote
15 sufficiently. One may legitimately question why this
16 should be necessary since our basic philosophy calls for
17 dependence upon the forces of a free market to determine
18 the allocation of our economic resources. The answer
19 customarily given is that businessmen may be unwilling
20 to invest sufficiently in projects where the results are
21 highly uncertain or the return may be long delayed. This
22 would justify, for example, the incentives given in the
23 Act to geological exploration and development work, which
24 is largely a gamble, or to scientific research expendi-
25 tures which are likewise uncertain of immediate result or
26 which may not otherwise be warranted because of the
27 restricted size of the Canadian market. We think these
28 reasons for incentives in such fields as resource develop-
29 ment and scientific research are sound. We suggest only
30 that such incentives should be used sparingly since



1 overuse could very easily lead to too great a direction
2 of the economy. We also think that, where granted, the
3 incentives should be made available to the general run
4 of taxpayers, not just to a restricted group, as has been
5 done with the exploration, prospecting and development
6 expense provisions. After all, since the concession is
7 only against taxable income, the taxpayer must bear a
8 substantial part of the cost and therefore, is hardly
9 likely to be spending the government's money, and his
10 own, frivolously. If, however, there is serious concern
11 about possible abuse by individuals in the 70% to 80%
12 tax bracket, the incentives could be restricted to
13 corporations, other than personal corporations.

14 17. The second type of incentive reduces itself
15 largely to an attempt to produce an incentive on the
16 cheap. The limitation on revenue loss to the Government
17 is attained by means of discrimination between taxpayers.
18 Thus the taxpayer who was foresighted enough to carry on
19 a research programme appropriate to his needs prior to
20 1962, gets no benefit from the section 72A deduction
21 while the laggard who commences a research programme in
22 1962 or after, is rewarded. Similarly the corporation
23 that was exploiting its sales opportunities to the full
24 prior to 1962 receives little advantage from the 1962
25 "production incentives" provided by section 40A of the
26 Act while the corporation previously running at half-
27 steam has much more opportunity to benefit.

28 18. Limitations on the availability of special
29 incentives inevitably require special provisions in the
30 Act to spell them out. As special provisions increase,



1 the complexity of the statute is multiplied, to the
2 detriment of the effectiveness of the incentives and
3 conceivably to a point where the whole administration of
4 the Act could break down. For example, provision of the
5 production incentives requires statutory definitions of
6 a "manufacturing and processing corporation", "sales",
7 "net sales", "tax otherwise payable", the invention of
8 a new concept, the "connected corporation" and provisions
9 to prevent abuse or eliminate possible unfairness, deal-
10 ing with such matters as the purchase by one corporation
11 of another business, amalgamations, short fiscal periods,
12 and artificial sales. If past experience is any guide,
13 the only certainty about these provisions is that some
14 taxpayers will find a way to circumvent them in a manner
15 not intended by those who drafted the legislation, while
16 other taxpayers who are entitled to any benefit of this
17 sort will be denied it through some unforeseen flaw in
18 the special provisions.

19
20 THE MEANING OF "INCOME" -- ACCOUNTING AND TAXATION

21 19. Quite apart from the effect of special purpose
22 incentive legislation in the Act, the extent of the
23 difference between income determined under business
24 practice and income subject to taxation would seem to be
25 unsatisfactory. If income subject to tax is not to be
26 defined in the taxing statute, it ought, in the interests
27 of equity among taxpayers, to be determined by some in-
28 dependent and recognized standard. Conversely, if such
29 a standard is not used, the Statute itself should state
30 what it is attempting to tax, and not leave the issue to



1 be decided by the Courts through a laborious and uncertain
2 process of interpretation of the meaning of words used in
3 the Act rather than of the intention expressed in the
4 Act.

5 20. If the necessity for making this choice is
6 accepted, it will be in order to turn to a consideration
7 of the practices followed by business accountancy in
8 determining income. As was indicated in the report of
9 the Study Group on Business Income, any examination of
10 the practices followed by business in determining profits
11 reveals a considerable diversity from one business to
12 another, and, further, a considerable change in prevailing
13 practices over long periods of time. A half-century ago,
14 profit for a period was thought of as the change in the
15 net value of business assets (appropriate allowance being
16 made for capital introduced and withdrawn). For example,
17 in a paper entitled "The Profits of a Corporation"
18 delivered at the First International Congress of Account-
19 ants in 1904, A. Lowes Dickinson said:

20 This definition would permit any business concern
21 to revalue periodically the whole of its assets
22 and liabilities and to record the difference
23 between its surplus so ascertained at the
24 commencement and the end of the year as its
25 Profit or Loss, respectively; and provided
26 that this estimate was fairly and reasonably
27 made, there would be no objection to such a
28 course. In other words, every appreciation of
29 assets is a Profit, and every depreciation a
30 Loss; and in many private concerns this method,



1 technically known as 'Single Entry', of
2 ascertaining profits has been regularly
3 adopted for years without bad results."

4 The harmony between this view and that expressed by Lord
5 Justice Fletcher Moulton in the Spanish Prospecting Co.
6 case (see paragraph 12) may be noted.

7 21. This approach essentially required an inventory
8 and valuation of all the assets of a business. However,
9 even in simpler days, the valuation of capital assets
10 peculiar to a business, or of stock in trade at varying
11 stages of production, presented problems, and valuations
12 at cost, or cost less reserves dictated by prudence were
13 common. This natural conservatism was reinforced later
14 by considerations of dividend and tax policy which made
15 it desirable that income should be "realized", i.e.,
16 should be in the form of cash or cash equivalents
17 (accounts receivable) before being taken into account.
18 The process of profit determination then became one of
19 matching the costs of the business against the revenues
20 recognized in the accounts. Thus from a position where
21 business income was determined by a process of valuation
22 of business assets, we have moved to a position where
23 the valuation of the assets of a business is dependent
24 upon the process of determination of its income.

25 22. The great majority of modern accounting prin-
26 ciples or rules relate to the solution of these two
27 fundamental questions:

- 28 1. When shall revenue be recognized in the accounts?
- 29 2. What costs should be matched (written off)
- 30 against revenues recognized in an accounting



1 period, in order to arrive at income for
2 the period?

3 The first of these questions is the simpler in practice.
4 Revenues will be recognized normally when they are both
5 "realizable" (i.e., an enforceable claim for payment
6 exists) and "earned" (i.e., the effort producing the
7 revenue has been accomplished). There are some exceptions
8 to this general rule, but they are not numerous. The
9 second problem, that of appropriate matching of costs,
10 is more complex. It involves the classification of costs
11 incurred by the business broadly into capital costs, to
12 be matched against income through depreciation accounting;
13 product costs, to be carried as part of inventory until
14 absorbed as costs of sales; and period costs, which are
15 costs of being in business that cannot be closely related
16 to the production of any particular goods or services,
17 and therefore are written off as incurred.

18 23. In our view, any scheme of taxation must
19 approach the problem of income determination along much
20 the same lines. It is difficult to conceive that a
21 scheme involving taxation of unrealized gains would be
22 either workable, or acceptable to the vast body of tax-
23 payers. The tax must fall at or near the time that
24 revenue is realized in a disposable (cash) form; other-
25 wise the onerous burden will fall on the taxpayer of
26 budgeting to pay the tax before he has achieved the
27 wherewithal from which it should be paid. We are in
28 agreement with the Radcliffe Committee in this view:

29 "The law does not treat an unrealized rise in
30 the value of property as income. Its general



theory is that taxable income consists of actual receipts of money or money's worth . . . To define income in this way is to define it for the purposes of a workable system of tax collection. Other definitions may be more appropriate, and indeed more intellectually satisfying, for other purposes. A man's annual income might well be arrived at by comparing the value of his total resources at the opening of the period with the value of his total resources at the close and making adjustments for incomings and outgoings. Such a method would take account of unrealized appreciations of value. But, putting aside the question which is the more equitable method, this method is exposed to the major objection that it is unworkable for income tax, for by no possibility could a system be operated which involved a fresh determination each year of the current values of all the possessions of the taxpayers of the country." (Report of the Royal Commission on the Taxation of Profits and Income (U.K.) 1955 P.26, paragraph 83.)

24. If, then, it is agreed that revenue is to be taken into taxable income only as realized, the remaining problem is how to match costs incurred by the business against such revenue, in order to compute income subject to tax. For tax purposes, as for accounting,



1 this entails an initial allocation of incurred costs as
2 between period costs (to be absorbed in the period in-
3 curred) capital costs, and product (inventory) costs. The
4 latter two categories of costs much then be matched
5 against revenue on an equitable basis through the use of
6 depreciation accounting and inventory costing conventions.

7 25. The immediate question that arises is, why
8 should the taxation statute attempt to write its own
9 solutions to these problems, when accounting conventions
10 have been fully developed with precisely the same aim in
11 view -- namely the proper determination of income.
12 Accounting principles are not developed irresponsibly or
13 haphazardly, but rather to meet the needs of the user of
14 financial data for a fair determination of income.
15 Indeed, it can be argued with force that if a taxation
16 rule is seriously at variance with an accounting principle
17 the probability is high that the taxpayer is being
18 treated inequitably.

19 26. We have recognized, however, in our earlier
20 discussion that accounting methods may be quite diverse,
21 as they are adapted to meet the circumstances of individual
22 businesses, and also because there is inherent in their
23 application some element of judgment. For example, the
24 depreciation charge against income will vary depending
25 on the system of amortization chosen (diminishing balance,
26 straight-line, or other) and on the judgment of management
27 as to the probable economic life of the business assets.
28 In theory, it is even possible that two identical
29 businesses with identical assets, using the same deprecia-
30 tion method might have different depreciation charges



1 because one business followed a more careful maintenance
2 policy than the other, and therefore prolonged the pro-
3 bable useful lives of its assets. Because of this
4 possible variety in the application of accounting methods,
5 it is sometimes argued that special taxation rules are
6 required for administrative convenience, and to avoid
7 inequity between taxpayers.

8 27. No one would question that a taxation system
9 must be administratively workable. We would go further
10 and say that it is highly desirable that it be not only
11 workable, but also convenient to administer. We do not
12 think, however, that considerations of mere convenience
13 should override the principle of fairness to and among
14 taxpayers. What is workable and what is fair in any
15 given area of taxation may, of course, be partly a matter
16 of judgment.

17 28. We think, for example, that the capital cost
18 allowance system has justified itself as a tool of tax
19 administration in place of attempting to make allowances
20 for depreciation geared to the requirements of individual
21 taxpayers. It could be improved by providing for the
22 amortization of intangible capital costs -- now sometimes
23 known as "nothings" as far as their tax status is concerned
24 -- but in general the system works well. Almost certainly
25 this is because the write-offs allowed for tax purposes
26 are, for most businesses, reasonably generous.

27

28 INVENTORY ACCOUNTING METHODS AND INCOME -- WITH SPECIAL
29 REFERENCE TO LIFO

30

29. We think that the present treatment of inventories



1 in Canadian income taxation is considerably less satis-
2 factory, and this brings us to the main argument of our
3 Brief, namely that the effect of the decision of the
4 Judicial Committee of the Privy Council in the Anaconda
5 case denying the use of LIFO, a well recognized inventory
6 accounting method, is inequitable and burdensome to cer-
7 tain taxpayers and has the effect, in their case, of
8 levying a tax that is not based on income, properly
9 determined.

10 30. It is our contention that the use of LIFO
11 inventory method provides a proper determination of income
12 for this Company, and others similarly situated, and that
13 the FIFO (First-in, first-out) inventory method, which
14 we are forced to use for taxation purposes, does not.
15 We should explain briefly why this is so. Earlier,
16 (in paragraph 22) we referred to the two fundamental
17 problems in income determination of timing of revenue
18 recognition and matching of costs against revenues
19 recognized. Most businesses follow the practice of
20 recording revenues when a sale is fulfilled by shipment
21 of goods and we do the same. The problem then arises,
22 in determining income for a year, of allocating an
23 appropriate measure of costs against the year's revenues.
24 In particular, there is the question of what portion of
25 costs incurred to acquire or produce goods should be
26 written off as representing the costs of the goods sold.

27 31. In a few cases this is no problem. For example,
28 the dealer in precious gems, or in fine works of art,
29 will know the cost of the individual items in his inven-
30 tory and thus can specifically identify the costs of



1 items sold. In most cases, however, too much record-
2 keeping would be involved in keeping track of individual
3 inventory items and in any event, where one inventory
4 item is substitutable for another, information that one
5 cost a little more or a little less than another is
6 useless. As a result, costs incurred to acquire inventory
7 are normally not associated in the records with the
8 individual goods acquired, and it becomes necessary to
9 make some reasonable assumption as to the costs that
10 should be associated with the goods sold.

11 32. The emphasis here is on the word "reasonable"
12 and raises the question -- "What is to be the standard
13 of reasonableness?" Accounting theory answers this in
14 terms of the end result. That method is most reasonable
15 that produces the most reasonable determination of income.
16 For example, Bulletin No. 5 of the Committee on Account-
17 ing and Auditing Research of the Canadian Institute of
18 Chartered Accountants states:

19 "The method selected for determining cost
20 should be one which results in the fairest
21 matching of costs against revenues regardless
22 of whether or not the method corresponds to
23 the physical flow of goods. Thus, if the
24 selling price of the finished product varies
25 concurrently with the price of the raw material,
26 the LIFO method of cost determination may be
27 appropriate even though the goods first received
28 are those first disposed of."

29 The Judicial Committee of the Privy Council, on the other
30 hand, ignored the question of what was the most reasonable



1 method of determining income and based its decision in
2 the Anaconda case on principles of income tax law it
3 derived from earlier cases. On this basis, it found that
4 for purposes of income tax the inventory at the beginning
5 and end of the year must be valued using the rule of "cost
6 or market price, whichever is lower", and the cost
7 assumed must be that of the actual goods in inventory so
8 far as it could be ascertained. For this purpose, it was
9 decided that the FIFO assumption was as good as any. A
10 dealer in perishable commodities would certainly try to
11 clear out his earliest stock first and many other busin-
12 esses would have at least a tendency to clean out old
13 inventory from time to time. It was recognized that there
14 might also be situations where an "average cost" method
15 of valuation would be appropriate.

16 33. By logical extension of the judgment a LIFO
17 assumption would also be appropriate where it accorded
18 with the physical facts. For example, a coal dealer
19 who stored his coal in a pile, making deliveries from the
20 top of the pile, might be justified in using a LIFO
21 assumption, while a coal dealer who stored his coal in a
22 hopper, loading from the top and making deliveries from
23 the bottom would use a FIFO assumption. This illustration
24 indicates the weakness of using physical flow as the
25 sole standard of reasonableness. Is the income of one
26 coal dealer different from that of another merely because
27 one loads his trucks from a pile while the other loads
28 from a hopper? Yet this can be the result of basing the
29 inventory costing assumption merely on an attempt to
30 arrive at specific identification of costs of actual



1 physical goods in inventory.

2 34. It remains to show why LIFO provides a reason-
3 able method of income determination for a business such
4 as ours. The key to this lies in our methods of doing
5 business. We regard ourselves as processors of metals
6 and fabricators of metal products, not as dealers in
7 metals. We aim to make a profit, not by buying cheap
8 and selling dear, but by receiving fair compensation for
9 our processing and fabrication effort. Our selling price
10 to a customer is, in effect, made up of two components,
11 a processing charge and reimbursement for the metal con-
12 tent. If it were generally convenient, we would have
13 the customer buy the metal for his own account, and merely
14 charge him for processing it. However, this is not
15 normally possible. To meet our customers' needs, we have
16 to have a stock of metals on hand at all times in raw,
17 semi-processed or finished form. Accordingly, we attempt
18 to maintain such a basic stock at all times and each
19 month we order enough copper, zinc, etc., to replace the
20 amounts we estimate will be used in the next month. We
21 also adjust our selling prices regularly to reflect
22 changes in the replacement cost of the metals we buy,
23 with the result that our sales proceeds from customers
24 and payments to suppliers are closely related and the
25 former automatically provides the cash with which to meet
26 the latter, regardless of whether metal prices are up or
27 down. This is most important since violent swings in
28 the prices of our basic raw materials (mainly copper)
29 over relatively short periods of time, have occurred in
30 the past, and may logically be expected to occur again.



1 35. In short, because of our manner of doing
2 business, we, in effect, charge the customer with current
3 metal costs. The LIFO method of inventory accounting
4 results in charging latest costs against sales revenue
5 and, therefore, clearly reflects our method of doing
6 business and results in a proper determination of our
7 income. No other generally accepted accounting method
8 would be as satisfactory. Taxation based upon the FIFO
9 assumption does not properly tax our income; in some
10 years the tax will be much higher than it should be,
11 in others, much less. The matter is of great practical
12 importance to us because we must carry a large basic
13 inventory of metal (equivalent to the metal content of
14 about four months sales) and because metal price
15 fluctuations can be sharp, so that differences in the
16 inventory valuations at times can be substantial. In
17 addition, periods of rising prices often coincide with
18 periods of increased business volume so that the require-
19 ment for tax on the increased FIFO valuation is added
20 to the strain on our resources caused by financing the
21 increased business.

22 36. A few illustrative figures will help to bring
23 the foregoing into focus. In table I below we show for
24 a ten year period the average price per lb. of metal we
25 have realized on sales of all products. We also show
26 the average cost of metals in products sold as shown by
27 our accounts and determined by the LIFO method (with
28 minor exceptions). The spread between the average
29 realization per lb. and the average cost per lb. repre-
30 sents the processing charge component in our selling



1 prices. Minor fluctuations, in this average spread, will
2 occur from year to year because of changes in the "mix"
3 of products sold (some having higher processing charges
4 than others), but in general, this average is representa-
5 tive of our processing charge. In the period covered,
6 the charge per lb. has trended upwards, naturally, as we
7 have had to increase our charges to cover increased
8 labour and other costs. For comparative purposes, we also
9 show the average cost per lb. of metal sold as determined
10 by the FIFO method under which we are taxed, and the
11 spread between average cost and sales realization on this
12 assumption.

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COMPARISON OF AVERAGE REALIZATION PER LB. OF METAL SOLD
WITH AVERAGE COST OF METAL SOLD, AS DETERMINED UNDER
LIFO AND FIFO ASSUMPTIONS

1953 - 1962

	Average		LIFO Assumption		FIFO Assumption	
	realization		Cost		Cost	
	per lb.					
Year	on sales	-	per lb.	Spread	per lb.	Spread
1953	45.68¢		28.43¢	17.25¢	28.75¢	16.93%
1954	45.71		28.04	17.67	27.99	17.72
1955	52.61		34.92	17.69	32.47	20.14
1956	59.92		39.53	20.39	41.70	18.22
1957	49.17		28.45	20.72	31.62	17.55
1958	45.44		25.00	20.44	24.37	21.07
1959	50.11		28.64	21.47	27.81	22.30
1960	50.96		29.36	21.60	29.66	21.30
1961	49.50		28.33	21.17	27.83	21.67
1962	50.39		30.34	20.05	29.94	20.45

37. The LIFO figures in this table illustrate how our processing charge increased over the ten-year period, rapidly in 1956 and 1957, and more slowly before and after. This is in spite of the fact that our sales realization per lb. reached a peak in 1956 which was almost 20% higher than in any subsequent year. In contrast, the FIFO figures show that our return after covering metal costs fluctuated quite erratically, especially in the period 1954 to 1959, viz --



	Processing charge	Processing charge
	<u>LIFO Assumption</u>	<u>FIFO Assumption</u>
1954	17.67¢ per lb.	17.72¢ per lb.
1955	17.69	20.14
1956	20.39	18.22
1957	20.72	17.55
1958	20.44	21.07

The variations in processing charge are, of course, reflected in the net income of the Company after absorbing our costs of processing, selling, administration, etc. Thus our net income (before tax) per lb. of metal processed and sold in the five years appears as follows under the two accounting assumptions:

	<u>Net income before tax per lb.</u>	
	<u>LIFO</u>	<u>FIFO</u>
1954	4.02¢	4.07%
1955	4.86	7.32
1956	4.36	2.18
1957	4.28	1.11
1958	4.47	5.10

38. The year 1955 was our highest volume year for some time and has not been matched since, so that our profits per unit of sales in that year showed the improvement one would expect from the fact that some costs do not increase proportionately with volume. However, volume changes are not nearly enough to explain the changes in profit per lb. shown by the FIFO figures. For example, 1956 was a considerably higher volume than 1954 or 1958 but shows a much lower unit profit, while 1957 was about on a par with 1954 yet shows the lowest unit profit of all.



1 39. The explanation of the fluctuations in the FIFO
2 profits lies rather in the effect of the FIFO assumption
3 on costs shown when basic material prices are rising or
4 falling. We adjust our selling prices to reflect current
5 replacement costs of metal, and through the LIFO method
6 we match as closely as possible current replacement costs
7 with current sales revenues so that the two are in step.
8 Under the FIFO assumption, however, income is charged not
9 with current metal costs, but rather with costs prevail-
10 ing some months earlier. On a rising market, current
11 costs are higher than earlier costs and therefore the use
12 of earlier FIFO costs overstates income while on a
13 falling market the reverse is true.

14 40. This may be illustrated by the following hypo-
15 thetical example showing profit figures arrived at on the
16 two inventory methods over a three year period, in the
17 first half of which metal prices were rising, while in
18 the second half they were falling. While the price and
19 volume figures used in this example are hypothetical,
20 we have attempted to make the illustration realistic.
21 The metal prices shown, for example, approximate the
22 actual course of copper prices in the years 1955 to 1957.
23 Volume relationships are also realistic in that the
24 inventory amounts to over a quarter-year's production,
25 and purchases and sales volumes are approximately matched,
26 as we attempt to do. Similarly sales prices are adjusted
27 in step with costs of buying metal.



HYPOTHETICAL ILLUSTRATION OF RESULTS OF USING LIFO
AND FIFO INVENTORY COSTING ASSUMPTION OVER A
PERIOD OF BOTH RISING AND FALLING PRICES

A. Assumptions

(1) Opening inventory - 10,000,000 lbs. valued at 25¢/lb. = \$2,500,000

(2) Purchases and sales over 3 years, as follows:

		Purchases		Sales	
		Quantities (000's)	Price per lb.	Quantities (000's)	Price per lb.
					Total sales value (000's)
Year 1					
1st quarter	9,000	29¢	\$ 2,610	9,500	\$ 4,370
2nd quarter	8,000	35	2,800	9,500	4,420
3rd quarter	7,000	35	2,450	3,120	52
4th quarter	9,000	45	3,870	60	3,120
	33,000		\$11,730		6,000
					\$17,910
Closing price per lb. - December 31 - 43¢					
Year 2					
1st quarter	11,000	43¢	\$ 4,730	10,000	\$ 6,000
2nd quarter	9,000	46	4,140	9,000	5,715
3rd quarter	7,000	39	2,730	6,500	3,673
4th quarter	10,000	39	3,900	10,500	6,090
	37,000		\$15,500	36,000	\$21,478
Closing price per lb. - December 31 - 35¢					
Year 3					
1st quarter	11,000	35¢	\$ 3,850	12,000	\$ 6,360
2nd quarter	10,000	33	3,300	10,000	5,100
3rd quarter	8,000	30	2,400	7,000	3,360
4th quarter	10,000	25	2,500	10,000	4,300
	39,000		\$12,050	39,000	\$19,120
Closing price per lb. - December 31 - 25¢					



HYPOTHETICAL ILLUSTRATION OF RESULTS OF USING LIFO
AND FIFO INVENTORY COSTING ASSUMPTION OVER A
PERIOD OF BOTH RISING AND FALLING PRICES

B. Comparative profit and loss shown on LIFO and FIFO assumptions

	Year 1		Year 2		Year 3	
	LIFO (000's)	FIFO (000's)	LIFO (000's)	FIFO (000's)	LIFO (000's)	FIFO (000's)
Sales	\$17,910	\$17,910	\$21,478	\$21,478	\$19,120	\$19,120
Cost of sales:						
Opening inventory	\$ 2,500	\$ 2,500	\$ 2,250	\$ 3,870	\$ 2,669	\$ 3,500
Purchases	11,730	11,730	15,500	15,500	12,050	12,050
Closing inventory	14,230	14,230	17,750	19,370	14,719	15,530
	<u>2,250</u>	<u>3,870</u>	<u>2,669</u>	<u>3,500</u>	<u>2,669</u>	<u>2,500</u>
Metal costs	\$11,980	\$10,360	\$15,081	\$15,870	\$12,050	\$13,050
Processing costs	<u>4,450</u>	<u>4,450</u>	<u>4,901</u>	<u>4,900</u>	<u>5,275</u>	<u>5,275</u>
	\$16,430	\$14,810	\$19,981	\$20,770	\$17,325	\$18,325
Net profit	\$ 1,480	\$ 3,100	\$ 1,497	\$ 708	\$ 1,795	\$ 795
Profit per lb. sold	4.35¢	9.12¢	4.16¢	1.97¢	4.60¢	2.04¢



1 41. The figures for profit per lb. of metal sold
2 emphasize the unrealistic results obtained by the FIFO
3 costing assumption in circumstances such as these. It is
4 just not reasonable to show a profit of 9.12¢ per lb.
5 in one year and 1.97¢ per lb. in the next when sales
6 prices are regularly adjusted to cover processing costs
7 and provide a steady differential over metal costs.
8 Rather, the swings in profits reported are merely the
9 result of revaluation of inventory that must be carried
10 and cannot be liquidated if the business is to carry on.
11 For example, the higher FIFO profit shown in year 1 is
12 merely the result of valuing the 9,000,000 lbs. of metal
13 in the closing inventory at 43¢ a lb. instead of the 25¢
14 a lb. at which the metal was valued at the beginning of
15 the year, making a difference of \$1,620,000.

16 42. It is submitted, therefore, that in the inter-
17 ests of equity to taxpayers such as ourselves, the legal
18 rule enunciated by the Privy Council in the Anaconda case
19 ought to be overridden by statute or regulation. The
20 precise manner in which this should be done need not
21 concern the Commission unduly, but some comments may be
22 helpful. As has been indicated, LIFO is particularly
23 appropriate for income determination under certain special
24 conditions. In his judgment in the Exchequer Court,
25 (Anaconda American Brass Ltd. v. M.N.R. 52 DTC 1111)
26 which was subsequently upheld by a majority of the Supreme
27 Court of Canada, (M.N.R. v. Anaconda American Brass Ltd.
28 54 DTC 1179) Mr. Justice Thorson summarized these con-
29 ditions very clearly, as follows:

30



"Where a manufacturing company

1. Avoids speculation or trading in its materials;
2. Makes the sales price of its finished products closely reflect the current replacement cost of their materials content;
3. Matches its purchases of materials to its sales of finished products so that the inflow of the materials equals the outflow of the materials content of the finished products;
4. Must continuously maintain a large inventory and
5. The rate of its turnover is slow."

43. We are not aware how many businesses in Canada would meet these conditions but we do not imagine there would be a great many. The problem, therefore, would be to draw a statutory rule that would distinguish fairly between those taxpayers entitled to use LIFO and those who are not. One way might be to attempt to quantify some of Mr. Justice Thorson's tests. For example, one test might be that the method would only be open to taxpayers whose inventory on average, constituted more than three months sales volume and whose physical inventory volume could be accounted to the extent of a given per cent or per cents, by one, two or three basic raw materials, so that it was effectively possible to match sales prices with raw material costs. Another way would be to allow the exercise of ministerial discretion in permitting the use of LIFO, (but this would seem to be counter to



1 the trend in administration of the Act in the past 15
2 years). Still another way would be to enunciate a general
3 rule as to the conditions under which the use of LIFO
4 would be deemed appropriate and leave it to the Courts to
5 decide any particular case where the Minister and the
6 taxpayer could not agree on the basis of the facts. This
7 approach was adopted a few years ago by a group of
8 lawyers and accountants who were urging amendment to the
9 Regulations to the Income Tax Act so as to permit the use
10 of LIFO in conditions such as we have described. The
11 draft amendment submitted by that group is attached here-
12 to as Appendix A. It will be noted that the tests for
13 the admissibility of LIFO have been reduced to what, in
14 our view, are the key tests, namely that the taxpayer
15 regularly follows "the practice of purchasing, substan-
16 tially as sales of finished products occur, replacement
17 materials in quantities similar to the quantities of
18 materials contained in the products sold and of having
19 his selling prices reflect changes in the current replace-
20 ment cost of the material content of finished products
21 substantially as such changes occur."

22
23 THE CASE FOR AND AGAINST THE GENERAL USE OF LIFO FOR TAX
24 PURPOSES

25 44. So far we have dealt with the case for the
26 admissibility of LIFO under quite restricted conditions,
27 namely where the taxpayer's basic materials are subject
28 to violent price fluctuations, where he must carry a
29 large inventory, and where he adopts a method of conduc-
30 ting his business designed to hedge the resulting



1 inventory risk by balancing his sales and purchase
2 commitments and regularly adjusting his sales price to
3 reflect his material replacement cost. These are the
4 conditions which LIFO accounting was first developed to
5 meet, and constitute the traditional justification for
6 LIFO.

7 45. A discussion of LIFO, however, would not be
8 complete without reference to its widespread use in the
9 United States under conditions that do not conform with
10 the traditional conditions we have just described.
11 (Of 600 companies surveyed in the 1962 edition of the
12 publication "Accounting Trends and Techniques", 201
13 reported the use of LIFO). (Accounting Trends and Tech-
14 niques, 16th Edition, Page 51 - Published by the American
15 Institute of Certified Public Accountants, 666 Fifth
16 Avenue, New York, N.Y., U.S.A.) There one finds LIFO
17 inventory accounting, in one form or another, used by
18 some retail department and specialty stores, meat packers,
19 pulp and paper companies and many other miscellaneous
20 businesses. The reason for this relatively widespread
21 use of LIFO lies in the general inflation of prices that
22 has taken place since 1939, together with the admissibili-
23 ty of the method for tax purposes. Where the price level
24 is steadily rising, the use of FIFO, which matches the
25 earliest inventory costs against revenue, results in
26 reporting a higher income than would be reported if
27 latest costs were written off against current revenues.
28 Since inventory must be replaced so long as a business
29 continues, it is argued that the higher income is not
30 really realizable, and a better income determination is



1 made by matching latest costs against revenues through
2 the use of the LIFO method. Or, in more theoretical
3 terms, it is argued that income should be measured by
4 matching sales dollars with cost dollars of the same
5 relative purchasing power. Since the latest costs
6 incurred will reflect the current purchasing power of the
7 dollar, the LIFO method is an expedient way to eliminate
8 the effect of the changing value of the dollar in comput-
9 ing income (insofar as inventory accounting is concerned).

10 46. Although this argument has some points of
11 similarity to the case for LIFO under the traditional
12 conditions, there are important differences. The normal
13 business does not attempt to achieve a close matching
14 between its selling prices and current costs nor to match
15 its purchase and sale commitments. It cannot, therefore,
16 be said of most businesses that the LIFO method is the
17 only method that fairly reflects its method of doing
18 business in all circumstances. Instead the argument must
19 run to the effect that a more useful definition of
20 annual income is produced if it is closely tied to dis-
21 possible cash arising from operations of the period. For
22 taxation purposes, therefore, it follows that while LIFO
23 ought to be accepted for certain taxpayers, as being the
24 only measure of their income, the desirability of general
25 extension of permission to use LIFO is more a matter of
26 policy.

27 47. The strength of the case for a general extension
28 of LIFO depends partly upon the probability of continued
29 general inflation, partly on the smoothing effect it may
30 have on the economy, and partly upon considerations of



equity among taxpayers. There can be little doubt that a combination of a considerable degree of inflation and a high rate of taxation applied to income determined under normal accounting rules would place a most onerous burden upon business. The likelihood of continued inflation, however, is necessarily a matter for conjecture. There have been some warnings of deflation recently, and the existing fact of underemployment plant and manpower in this country, and others, does not suggest strong inflationary pressures in the near and medium term. Nevertheless, it must be admitted that the very long-term trend over the centuries has been a continual drop in the purchasing power of money, and experience since the last war, when prices have risen even through periods of mild recession, have convinced the average businessman that some price inflation is the normal condition. In these circumstances, permission for the general use of LIFO in computing business income might well have an encouraging effect on business generally. In addition, it is probable that the use of LIFO on a wide scale would tend to level out some of the peaks and valleys in the economy. Government revenues would be more regular as a result of the elimination of fluctuations in taxable profits associated merely with price fluctuations. Business cash requirements would similarly be stabilized. Business investment decisions might also be made in a more orderly fashion.

48. At the present time, the taxing system does not allow for the maintenance of the real physical capital of a business during an inflationary period before income tax is levied. On the other hand, it has been pointed



1 out that the owner of capital such as bonds, the value
2 of which is expressed in monetary terms, is not granted
3 an allowance against the decline in real value of his
4 investment, and it is suggested that it would be unfair
5 to protect one type of taxpayer against inflation without
6 protecting the other. We think the strength of this
7 argument can be overrated. With the existing more general
8 consciousness of the dangers of inflation, the investor
9 may be expected to turn to more appropriate media of
10 investment or to demand a higher return on fixed dollar
11 value securities to compensate for the inflationary risk.
12 Similarly, the pensioner will receive more protection
13 through institutional investment policy along the same
14 lines, or through such devices as the variable annuity
15 plans now being developed. In any event, it may well
16 be argued that the overall welfare depends on the general
17 health of business and it is of the first importance to
18 preserve an economic climate that will be favourable to
19 the business investment and expansion. It must also be
20 remembered that many Canadian businesses must compete
21 with foreign business for markets and should not, there-
22 fore, have to carry a tax burden that is out of line with
23 theirs. In this connection, we have prepared a brief
24 note of practices of other countries in the taxation of
25 business income, with particular reference to inventory
26 methods permitted for tax purposes, and this is included
27 as Appendix B.

28 49. It must be recognized that a general extension
29 of the permission to use LIFO would cause administrative
30 problems that would not be encountered if permission were



1 restricted to those taxpayers meeting the classical tests
2 for LIFO. For example, only processors using a relatively
3 few basic raw materials are, in practice, able to conduct
4 their business so as to match sales prices with material
5 costs and purchase and sale volume commitments. If LIFO
6 is used by other types of businesses, special accounting
7 rules have to be devised to give effect to a last-in
8 first-out assumption of flow of costs. Some of the
problems involved are:

- 10 1. The problem of classifying goods by pools
11 (category, group or department), to which the
12 last-in, first-out assumption would apply.
- 13 2. The problem of constructing index numbers
14 for application to inventories determined by
15 the retail method.
- 16 3. The problem of dealing with "involuntary
17 liquidation" of inventory.

18 While these are difficult problems, it will be remembered
19 that they have been dealt with in the United States, and
20 Canada would be able to draw upon experience there if
21 LIFO were to be introduced broadly here. We attach as
22 Appendix C a memorandum on the administration of LIFO
23 tax rules in the United States.

25 THE COMPANY

26 50. In conclusion, for the information of the
27 Commission, we submit a brief description of our Company
28 and its activities. Anaconda American Brass Limited
29 is a prime metal processor, having its head office and
30 fabricating plant in New Toronto, Ontario, warehouses



1 in Montreal, and Vancouver, and sales offices in Quebec
2 City, Montreal, Winnipeg, Calgary and Vancouver. The
3 business of the company is the production and sales of
4 sheets, rod, tube and other industrial forms made of
5 copper, brass, bronze or copper-nickel alloys. Its
6 principal customers are makers of automobile components,
7 heavy electrical equipment, and the construction industry.
8 About 12% of its sales are currently made in the export
9 market and this percentage has grown in the last few
10 years. The company's principal raw material is copper
11 which it buys from Canadian refineries in cathode sheets
12 or simple shapes known as "cakes" or "billets". It also
13 consumes substantial quantities of zinc and relatively
14 smaller quantities of nickel, tin and lead in its
15 operations. The company's principal supplier of copper
16 and nickel is The International Nickel Company, while
17 lead and zinc are purchased from The Consolidated Mining
18 & Smelting Company and Hudson's Bay Mining and Smelting.
19 51. The company is wholly-owned by Anaconda American
20 Brass Company, which has its head office in Waterbury,
21 Connecticut, U.S.A. That company, in turn is a wholly-
22 owned subsidiary of The Anaconda Company. The Anaconda
23 group of companies in the United States conducts an
24 integrated operation from mine to consumer in the produc-
25 tion of metal and metal products. The active management
26 of Anaconda American Brass Limited is, however, entirely
27 composed of Canadians, and the company operates actively
28 in the world markets as well as in Canada.



APPENDIX A

DRAFT AMENDMENT OF INCOME TAX REGULATIONS
RELATING TO INVENTORY VALUATION

Section 1802

(1) Any taxpayer who is a processor of materials and seeks to avoid speculation in materials by regularly following the practice of purchasing, substantially as sales of finished products occur, replacement materials in quantities similar to the quantities of materials contained in the products sold and of having his selling prices reflect changes in the current replacement cost of the material content of finished products substantially as such changes occur, may elect to value any class of material described in an inventory at the average cost thereof determined in the manner described in subsection (2).

(2) For the purpose of this section the average cost of a unit of material shall be determined as follows:

(a) The average cost of a unit of material of a class on hand at the beginning of the taxation year in which the taxpayer elects to adopt this method shall be deemed to be the total value placed on the materials of that class on hand at the end of the preceding taxation year for the purpose of computing the income of the taxpayer for that year, divided by the number of units of such material on hand at that date.

(b) If the quantity of a class of material on hand at the end of the taxation year does not exceed



1 the quantity on hand at the beginning of the
2 year each unit of material of the class shall be
3 valued at the average cost of the units of the
4 material of that class on hand at the beginning
5 of the taxation year.

6 (c) If the quantity of materials of a class on hand
7 at the end of a taxation year exceeds the
8 quantity on hand at the beginning of the year
9 each unit shall be valued at the average obtained
10 by adding

11 (i) the total cost (as determined for the
12 purpose of this section) of all of the
13 material of that class on hand at the be-
14 ginning of the taxation year and

15 (ii) an amount arrived at by multiplying the
16 average cost per unit of all of the material
17 of that class acquired in the taxation year
18 by the excess of the number of units there-
19 of on hand at the end of the year over the
20 number of units thereof on hand at the be-
21 ginning of the year.

22 and dividing the sum of (i) and (ii) by the
23 number of units thereof on hand at the end of the
24 year.

25 (3) For the purposes of this section a class of
26 material shall consist of all of a material acquired for
27 processing, including the content of such material in the
28 goods in process and finished goods processed by the tax-
29 payer.

30 (4) If a taxpayer has elected to adopt the method



provided in subsection (1) hereof for valuation of a class of material described in an inventory he may not subsequently adopt any other method of valuation of that class of material, except with the concurrence of the Minister.

APPENDIX B

INVENTORY ACCOUNTING METHODS ALLOWED FOR TAX PURPOSES IN OTHER COUNTRIES

1. Inventory accounting methods which have been found acceptable for tax purposes are discussed below for the following countries:

Austria	Italy
Belgium	Luxemburg
Denmark	Netherlands
France	Sweden
West Germany	United Kingdom

United States

2. While tax rates do vary between countries, the corporate rates in these various countries are reasonably comparable to the Canadian corporate rates. Thus this review of acceptable methods for valuing inventory is not distorted by the inclusion of countries where the valuation method would be unimportant because of very low rates of tax.

3. Generally speaking, the methods of inventory valuation permitted for tax purposes are more favorable to the taxpayer in the United States and Western Europe than in this country. While the rule of "lower of cost



1 or market" is commonly the foundation and point of
2 departure for tax valuation, a variety of rights and
3 privileges are available to the taxpayer:

4 (a) Greater freedom exists in the choice of the
5 inventory costing method - e.g., the "base
6 stock" method is acceptable in Italy, the Ne-
7 therlands, and to a limited degree, in France;
8 LIFO is acceptable in Austria, West Germany,
9 Italy, Luxemburg, the Netherlands and the
10 United States.

11 (b) The "market" aspect of inventory valuation may
12 be very conservatively estimated - e.g., a
13 method of computing market known as "Teilwert"
14 is available in Austria, Germany and Luxemburg.

15 (c) Special allowances against large scale rises in
16 prices, and hence inventory values, are avail-
17 able in France and Germany.

18 (c) Special reserves may be deducted in computing
19 inventory valuations in Denmark and Sweden.

20 These will be considered in greater detail below.

21
22 Base stock

23 4. This method, whereby a constant volume of stock
24 considered essential to the business is valued at a
25 constant figure, is acceptable in Italy and the Nether-
26 lands. A fundamentally similar method was permitted in
27 Francy up until June 30, 1959. Subsequent to that date,
28 the reserves created to reduce the values of the
29 "indispensable stock" became liable to a 6% tax, which
30 freed them from any further liability. In effect,



1 increases in value of the base stock up to June 30, 1959
2 were not taken into account in computing taxable income,
3 and at June 30, 1959, the stock was revalued at current
4 prices for tax purposes at the cost merely of the special
5 6% tax.

6 5. A type of base stock method is also still in
7 effect in France covering the valuation of certain raw
8 materials bought in the world markets (copper, tin, lead,
9 zinc, cotton, wool, silk, rubber and unrefined petroleum)
10 and also of certain raw materials obtained in French soil,
11 the prices of which are closely related to world market
12 price fluctuations. These provisions permit a reduction
13 in the valuation of basis stock (i.e., the average of
14 stocks existing in 1938, 1939, 1946 and 1947) calculated
15 by reference either to price index numbers or to actual
16 price changes.

17
18 LIFO

19 6. As noted above, the LIFO method is found in use
20 in Austria, Germany, Italy, Luxemburg, the Netherlands,
21 and the United States. In Germany, however, it may be
22 used only if it reflects the actual pattern of stock
23 movement, while in Austria, the taxpayer must show that
24 it is appropriate to the circumstances of the business.

25
26 Teilwert

27 7. Teilwert is a valuation concept based on the
28 idea of valuation of an enterprise for sale as a going
29 concern. If the portion of such a sale price attributable
30 to inventory is lower than other inventory valuations on



1 the normal basis, it may be substituted for tax purposes
2 in Austria, Germany and Luxemburg.

3
4 Allowances against large price increases

5 8. Both Germany and France have fairly similar
6 provisions for deferring the tax on major increases in
7 the price of goods in inventory. In Germany, if the
8 year-end market value is 10% higher than the beginning
9 value, the difference is allowed as a reserve against
10 taxable income. Subsequent falls in value as a result of
11 price decreases are offset against the reserve and any
12 unabsorbed balance at the end of six years is taxed.

13 9. The French provision is similar except that the
14 reserve may be created if prices have risen by more than
15 10% over two successive accounting periods, but the
16 reserve is restricted to the excess of the price increase
17 over 10%.

18
19 Special deductions from inventory value

20 10. In Denmark, a tax-free reserve of up to 35%
21 of the inventory value may be deducted from the normal
22 valuation at the lower of cost or market.

23 11. In Sweden, extremely conservative methods of
24 inventory valuation are permitted. The general rule is
25 that inventory may be valued as low as 40% of cost or
26 market value. Furthermore, if the value of the closing
27 inventory before this reserve is less than the average
28 of the two preceding year-end inventories, the reserve
29 permitted will be 60% of this average value, even though
30 that might reduce the closing inventory valuation to a



1 negative figure.

2 12. Where raw materials are involved, they may be
3 valued at 70% of the lowest market value for the ten-
4 year period ending with the end of the current taxation
5 year. If raw materials are valued in this manner then
6 the balance of the inventory must be valued at the lower
7 of cost or market subject to the 60% inventory reserve
8 based on the current inventory value, rather than a reserve
9 based on the average of the inventory values at the end of
10 the two preceding taxation years.

11 13. If a lower price than those determined as above
12 can be justified on the grounds of a risk of declining
13 prices, then a still lower inventory valuation may be
14 permitted.

15 APPENDIX C

16 LIFO--U.S. PROCEDURE AND EXPERIENCE

17 Specific provision is made in section 471 of
18 the U.S. Internal Revenue Code to cover the accounting
19 for and valuation of inventories. Section 471 reads as
20 follows:

21 "Whenever in the opinion of the Secretary or
22 his delegate the use of inventories is necessary
23 in order clearly to determine the income of
24 any taxpayer, inventories shall be taken by
25 such taxpayer on such basis as the Secretary
26 or his delegate may prescribe as conforming
27 as nearly as may be to the best accounting
28 practice in the trade or business and as most
29 clearly reflecting the income."
30



1 Section 1.471 - 2 of the U.S. Income Tax Regulations
2 dealing with the valuation of inventories commences by
3 saying:

4 "(a) Section 471 provides two tests to which each
5 inventory must conform:

6 (1) it must conform as nearly as may be to the
7 best accounting practice in the trade or
8 business, and

9 (2) it must clearly reflect the income.

10 "(b) It follows, therefore, that inventory rules
11 cannot be uniform but must give effect to trade
12 customs which come within the scope of the best
13 accounting practice in the particular trade or
14 business. In order clearly to reflect income,
15 the inventory practice of a taxpayer should be
16 consistent from year to year, and greater
17 weight is to be given to consistency than to
18 any particular method of inventorying or basis
19 of valuation so long as the method or basis
20 used is substantially in accord with sections
21 1.471 - 1 through 1.471 - 9. An inventory
22 that can be used under the best accounting
23 practice in a balance sheet showing the finan-
24 cial position of the taxpayer can, as a general
25 rule, be regarded as clearly reflecting his
26 income.

27 "(c) The bases of valuation most commonly used by
28 business concerns and which meet the require-
29 ments of section 471 are (1) cost and (2) cost
30 or market, whichever is lower."



1 In 1938 - 1939 specific provision was made by the addition
2 of what is now section 472 for the acceptability of the
3 LIFO method of determining cost, subject to certain rules
4 and regulations. The rules as set out in the Internal
5 Revenue Code may be summarized as follows:

6 (i) Use of LIFO must be approved by the Secretary.

7 (ii) LIFO must also be used for financial reporting
8 to shareholders and creditors.

9 (iii) Goods must be valued at cost.

10 (iv) Opening inventory in year of adopting LIFO must
11 be revalued at cost with a corresponding
12 adjustment to the previous year's closing
13 inventory, (if it was valued at lower of cost
14 or market).

15 (v) A subsequent change to a different method
16 cannot be made without the approval of the
17 Secretary.

18 To supplement the provisions of the Code, lengthy and
19 detailed regulations have been issued concerning the use
20 of LIFO. The U.S. Treasury presently recognizes several
21 methods of LIFO determination, including unit LIFO,
22 dollar-value LIFO, and retail LIFO. These various
23 methods are discussed briefly below.

24
25 Unit LIFO

26 Under the unit LIFO method, goods are segre-
27 gated into various pools. The composition of these pools
28 may be determined by style, shape, similarity of raw
29 materials, similarity of manufacturing process, use of
30 finished product, etc. Each pool is considered



1 separately for purposes of inventory valuation. At the
2 time the use of LIFO is commenced the number of units in
3 each pool will be determined and an average unit cost
4 price established. To the extent that the number of
5 units in a pool in subsequent inventories does not exceed
6 this base, the same unit value cost will be used.
7 Increments must be added at current costs and reductions
8 costed from the most recent acquisition.

9
10 Dollar-value LIFO

11 Under the dollar-value method inventories are
12 again segregated into various groupings or pools. The
13 closing inventory of each pool is then valued at opening
14 inventory prices to determine if the dollar value (in
15 constant prices) of any pool has increased. If it has
16 not such a determination will establish the value of that
17 pool in the closing inventory. If there is an increase,
18 the increased inventory must be valued at current costs
19 which are normally established by the use of a price
20 index based on prices of purchases during the year. The
21 closing inventory may be valued at opening inventory
22 prices in either of two ways. The closing inventory may
23 be completely priced using opening inventory prices.
24 Alternately, the closing inventory may be priced at
25 current costs and converted to opening costs by the use
26 of indices. These indices are established by pricing a
27 representative quantity of the closing inventory at both
28 current costs and opening inventory costs.



1 Retail LIFO

2 Retail LIFO is merely an adaptation of the
3 dollar-value method for persons who use the retail in-
4 ventory method to determine inventory cost. Departmental
5 inventories are valued at current retail and converted to
6 opening retail by the use of established or published
7 indices. Any increase is revalued at current retail
8 prices and converted to cost under the retail inventory
9 method. This increase is then added to the opening
10 inventory cost for the department to determine the closing
11 departmental LIFO inventory.

12 Under the U.S. law a taxpayer may adopt LIFO
13 as of the beginning of any taxation year by filing an
14 election to do so with his tax return for such year.
15 The taxpayer may choose the method of determining LIFO
16 cost which he wishes to apply and may use different
17 methods for different parts of his inventories. It is
18 possible to determine inventory cost under the LIFO
19 method for the material content of the inventory only or
20 the taxpayer may choose to determine the total material
21 labour and overhead cost on the LIFO method. Specific
22 products or materials may be excluded from the LIFO
23 calculation entirely, at the option of the taxpayer.
24 Having established a method, the taxpayer may change only
25 with the consent of the Commissioner.

26 The taxpayer when adopting LIFO must indicate
27 the method which he proposes to use for valuing inventory
28 increments. The various methods which may be used are --

- 29 (1) Actual cost of goods most recently purchased or
30 produced.



- 1 (ii) Actual cost of goods purchased or produced
2 during the taxation year in order of acquisition.
3 (iii) Average actual cost of goods purchased or
4 produced during the taxation year.
5 (iv) Any other proper method which in the opinion of
6 the Commissioner properly reflects income.
7 Decreases in quantities during a taxation year
8 are taken from the most recent acquisitions.

9 There are a few aspects of the LIFO method of
10 determining inventory cost which could create hardship
11 for taxpayers under the methods presently provided for in
12 the statutes and through administrative practice. These
13 are discussed in turn below.

14
15 (a) Pooling of LIFO inventories

16 With the recognition of dollar-value LIFO and
17 retail LIFO in 1947-48 the use of the LIFO method was
18 extended to virtually all taxpayers. The valuation of
19 LIFO inventories in the United States has now largely
20 moved from a process of finding specific costs for specific
21 items to a process of valuing inventory commodities
22 collected in various pools. The more pools within a
23 business the greater will be the danger of recognition
24 of inflationary profits when one particular commodity is
25 displaced by another commodity, either temporarily or
26 permanently, with no change in the overall inventory
27 quantities. A single pool for all the inventories of each
28 type of business carried on would seem to be the logical
29 method to avoid this problem.
30



1 (b) Involuntary liquidations

2 An involuntary liquidation may be defined as
3 a depleting of inventory at a time when the taxpayer is
4 not able to replace the inventory prior to the end of the
5 fiscal year because of circumstances beyond his control.
6 In such a situation the costs that are charged to cost
7 of sales during the fiscal period will reflect cost levels
8 prevailing in earlier years, and if costs and selling
9 prices have risen since then an abnormal profit is
10 reflected. When the stock is replaced, say in the sub-
11 sequent year, an increase in inventory will be reflected
12 as a result of adding to inventory at current prices.
13 Tax relief has been granted twice since 1939 for in-
14 voluntary inventory liquidations; during the time of
15 World War II and the Korean War. At no other time has tax
16 relief been given in the United States for involuntary
17 inventory liquidations.

18 It has been suggested by several writers that
19 tax relief should be granted by statute for any involun-
20 tary inventory liquidations resulting from circumstances
21 beyond the reasonable control of the taxpayer. This
22 would include liquidations resulting from uninsured
23 accidents, shipping delays, strikes, etc.

24
25 (c) The requirement that LIFO inventories be valued at
26 cost

27 In view of the statutory requirement that LIFO
28 inventories be valued at cost taxpayers using LIFO lose
29 the right to the tax relief obtainable when market values
30 of inventory fall below cost. As a result companies



1 newly incorporated and those who have not previously
2 adopted LIFO are faced with the problem of attempting to
3 forecast future price levels when considering the adop-
4 tion of LIFO.

5 To overcome this problem it has been advocated
6 by various writers that the Internal Revenue Code be
7 amended to extend "lower of cost or market" to include
8 "lower of LIFO cost or market". This would certainly
9 eliminate this problem. However, where inventories are
10 written down to market which is below cost, it is normal
11 accounting procedure to treat the previous year's market
12 as cost when looking at current inventories. If the
13 lower of LIFO cost or market were to be allowed it would
14 be necessary to provide that in a period of rising prices
15 inventory values previously written down to market be
16 returned to original LIFO cost or one would find that
17 over a period of years inventories were not being valued
18 at the "lower of LIFO cost or market" but at the "lowest
19 market ever".

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ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1
2 SUBMISSION

3 OF

4 MR. AND MRS. E. W. ODDLEIFSON, BAYFIELD, ONTARIO

5 AND

6 MR. STANLEY McCONNELL, 11 ST. THOMAS STREET, TORONTO, ONT.

7
8 The Secretary,
9 Royal Commission on Taxation,
10 P.O. Box 466, Ottawa.

11 We, the undersigned present the following
12 submission pertinent to taxation in the
13 Dominion of Canada.

14 Summary:

15 Taxation is a levy by the state on the incomes of the
16 citizens of that state for the purpose of providing public
17 services. It should, therefore, be limited to providing
18 those services rather than diverted to special interests
19 or special areas of the economy. It should be levied in
20 accordance with the democratic principle i.e. in propor-
21 tion to individual incomes and without imposing further
22 burdens on the taxpayer.

23
24 (A) Distribution of Tax Burdens

25 Graduated income taxes, as now levied, are in accordance
26 with the aforementioned principle but the corporation tax
27 violates the principle in that it imposes a double burden
28 on the taxpayer by raising prices and cutting down pro-
29 duction through the loss of purchasing power. This
30 applies as well to all consumer taxes including excise



1 and sales taxes, whether levied by Federal or Provincial
2 governments. In effect it is price inflation by govern-
3 ment decree. Estate taxes, under existing conditions, do
4 not infringe the principle since they are designed to
5 mitigate existing inequalities.

6
7 (B) Effects of the Existing Tax System.

8 1. Industrial Production, Employment and Living Standards.

9 It follows from the preceding paragraph that
10 consumer taxes, levied indiscriminately on the public,
11 contribute to the curtailment of production, creating
12 unemployment and lowering living standards.

13 2. Savings and Investment

14 Since consumer taxes raise the general price
15 level, they reduce by an equivalent amount the funds
16 available for savings and investment. A secondary effect
17 is to divert investment funds from hard-pressed productive
18 enterprise into non-productive channels (public debt)
19 subject to income tax, of course, but bearing interest
20 rates which act as a further brake on production. It is
21 a vicious circle of expanding monetary claims and contract-
22 ing real income.

23 3. Economic Stability and Growth

24 Economic stability and growth depend on the
25 elimination of recurring recessions which stem from re-
26 duced purchasing power. The greater the tax burden on
27 the lower and middle income groups the more likelihood of
28 recurring recessions.



1 (C) Devices to Avoid Fair Taxation

2 The present high, if not confiscatory, level
3 of taxes in Canada, imposing as it does an excessive
4 burden on all industry, places a premium on legalistic
5 means of evasion. To adopt a practical approach to the
6 problem of tax evasion, we feel that a lessening of the
7 tax burden is indicated. The only cure is to enlarge the
8 tax base by revising or removing taxes which help inhibit
9 Canadian industrial and agricultural expansion rather
10 than seek to plug existing loopholes in an admittedly in-
11 equitable tax system. Such revisions could lead to a
12 gradual reduction of all tax rates.

13
14 (D) Effects on the Balance of International Payments.

15 The balance of international payments is deter-
16 mined by:

- 17 1. Volume of Exports and Imports.
- 18 2. Investments, loans, dividend and interest
- 19 payments as between Canada and other
- 20 countries.

21 It is obvious that a lagging in national pro-
22 duction arising, in part, from the levy of consumer taxes,
23 must affect, adversely, Canada's balance of payments and
24 lead to further borrowing. Proof of this was evidenced
25 by Canada's foreign exchange crisis in June, 1962, when
26 Canada was forced to replenish her foreign exchange
27 reserves, by borrowing and also imposing higher tariffs
28 against the U.S.A.; both being unpalatable measures from
29 American and Canadian viewpoints.

30 Corporation taxes, in particular, by raising



1 prices, impair the ability of Canadian industry to compete
2 on favourable terms with foreign industry. This has led,
3 in some cases, to the establishment of subsidiaries in
4 outside countries to escape this heavy impost, with a
5 depressing effect on Canadian production and employment.
6 This same trend may be observed in the establishment of
7 American subsidiaries in Canada. Seeking to escape the
8 high taxes imposed in the U. S. A., they come to Canada
9 and although a measure of employment is created, they tend
10 to preempt the field of Canadian investment. This leads
11 to deficits in Canada's foreign exchange funds and
12 necessitates remedial measures. It is a game of musical
13 chairs played at the expense of all consumers. At the
14 national level it leads to embarrassing side effects,
15 such as the imbalance of international payments.

16
17 (E) Canadian Ownership and Investments from Abroad

18 Canadian ownership of Canadian industry can
19 best be realized by restoring normal economic incentives,
20 rather than by tax manipulations in the interests of
21 special groups. There is now a world trend toward econo-
22 mic integration which finds expression in the European
23 Common Market. In this movement competitive forces will
24 compel Canada to direct her fiscal policies to the lower-
25 ing of industrial costs and prices. Tax reforms can
26 contribute directly to this objective. In respect to
27 investments from other countries, we contend that the
28 unrestricted flow of foreign money contributes to the
29 imbalance of fiscal and trade relationships to the pre-
30 judice of Canadians in general but appropriate remedial



1 measures fall outside the scope of tax reform.

2

3 (F) Changes to Achieve Clarity and Simplicity In Tax Laws

4 The simplest and most effective form of tax is
5 the graduated personal income tax, based on the capacity
6 of the individual to pay. It is the most equitable tax
7 since it cannot be passed on to others. On the other
8 hand consumer taxes contribute to price inflation. They
9 are also a source of irritation and involve complicated
10 administrative machinery. As a contribution to clarity in
11 the minds of the public on the whole tax issue, we
12 suggest that the Taxation Division of the Federal Govern-
13 ment compile a simple tax brochure explaining their
14 reasons for and justification (if any) of the various
15 forms of taxes imposed. Clear statement of fact regarding
16 fair taxes (from income) and those taxes which have a
17 stifling effect on industrial and agricultural growth
18 should be offered to the public for their general recog-
19 nition. This would ease antagonism and hasten legislation
20 for the much needed revision of our tax laws.

21

22 Supplementary Submission

23

24 In 1961 the reported Gross National Product of
25 Canada was \$36,844,000,000., an increase of \$31,208,000,000.
26 over the 1939 figures, namely \$5,636,000,000 or 553%.
27 Since, during the same period, the Canadian dollar
28 depreciated to 48.7% of its 1939 value it follows that
29 51.3% of the above apparent increase in G. N. P. is not
30 an increase in real wealth but pure monetary inflation



1 or reduction in purchasing power of the dollar.

2 The next question is to what extent is the
3 above depreciation of the Canadian dollar due to the levy
4 of consumer taxes? Consumer taxes for the fiscal year
5 1961-62 (including corporation taxes) amounted to
6 \$3,585,528,380 which is 9.7% of the G. N. P.
7 (\$36,844,000,000) for the same year and it is included as
8 such. It is obvious that this apparent increase in G.N.P.
9 is illusory as it results in reduced purchasing power
10 and production for the year in the same ratio.

11 If governments and their taxing bodies would
12 seek to redress the wrong inflicted on the consumer, they
13 should make public the fact that consumer taxes (duty,
14 excise, corporation, sales etc.) are compounded from
15 manufacturer to wholesaler to retailer to consumer.
16 This compounding in the chain of distribution, boosted by
17 trade markups, results in a final tax on consumer goods
18 of several times the nominal amount of the original levy.
19 Thus, this built-in-fiscal drag accounts for a large
20 proportion of our dollar's depreciation. In the accompany-
21 ing table (see below) we have compared the per capita
22 G. N. P. for the years 1939 and 1961 indicating a percent-
23 age increase over the period of 22 years of 2.4%
24 (adjusted to compensate for the depreciation of the
25 dollar over the same period). Such a figure is recognized
26 by competent authorities as quite inadequate growth rate
27 for any country, much less one with Canada's resources.

28 We realize the levy of consumer taxes is not
29 the only factor involved in the depreciation of the
30 Canadian dollar but, as indicated above, it is a major



1 contributing factor. While politicians are arguing as to
2 the most effective way of increasing our rate of growth
3 we submit that the quickest and fairest means of increas-
4 ing the Canadian real income would be to repeal or at
5 least reduce progressively this form of double taxation.

			Percentage	
	<u>1939</u>	<u>1961</u>	<u>Increase</u>	
9	Population	11,267,000	18,238,000	61.8%
10	Gross N.P.	\$5,636,000,000	\$36,844,000,000	553. %
11	Per Capita G.N.P.	\$500	\$2,129	
12	Consumer Taxes			
13	(Corp., Duty,			
14	Sales, Excise \$	376,185,887	\$ 3,585,528,380	852. %
15	Per Cap. G.N.P.			
16	(Adjusted for			
17	Dollar Deprec.			
18	1.00 - ,48.7)	\$500	\$1,036	
19	Actual Increase			
20	Per Cap. over			
21	22 Year Period		\$536	2.4%
22				Yearly Average

24 All figures supplied by the Dom. Bureau of Statistics
25 And the Department of Finance.

26
27 Submitted by

28 Mr. and Mrs. E. W. Oddleifson,
29 Bayfield, Ontario,

30 Mr. Stanley McConnell, 11 St. Thomas Street,
Toronto, Ontario.



ANGUS, STONEHOUSE & CO. LTD
TORONTO, ONTARIO

A SUBMISSION

TO THE ROYAL COMMISSION ON TAXATION

By Roland Dorn, B.Sc., P.Eng.

April 1, 1963

1. This submission deals with certain inequities in the exemptions and deductions that are provided in the personal income tax, and compares exemptions that are not allowed in the personal income tax, with others that are allowed in the corporation income tax. Several recommendations for changes in deductions and exemptions of the personal income tax will be made.

2. One inequity of the personal income tax is the "standard deduction of \$100." This deduction may be claimed by every taxpayer instead of claiming deductions for union or professional dues, charitable donations, and medical expenses, without presenting receipts. If more than \$100.00 is claimed as a deduction for union or professional dues, charitable donations, and allowable medical expenses, receipts must be presented, and this of course is reasonable. What this means is that anyone who actually pays union or professional dues, and makes charitable donations that total \$100.00, and has receipts to substantiate his payments, is entitled to exactly the same deduction a taxpayer who pays no union or professional dues, and makes no charitable donations whatsoever. What the standard deduction \$100.00 in fact does is to increase the basic exemption from \$1,000.00 to \$1,100.00 for taxpayers who pay no dues and make no charitable donations, while abrogating the first \$100.00 of dues and donations of taxpayers who have receipts to substantiate their payments.



1 3. My first recommendation for improvements in the
2 personal income tax, is that the standard deduction be
3 made applicable to all taxpayers, and that all payments of
4 union or professional dues and all charitable donations
5 that are substantiated with receipts be allowed as deduc-
6 tions in addition to the standard deduction. My further
7 recommendation is that the amount of the standard deduction
8 be set at an amount so that there will be no decrease in
9 revenue from this source.

10 4. Medical expenses may be claimed only in the amount
11 by which the allowable expenses exceed 3% of the net income
12 of the taxpayer, and then only if this amount, plus union
13 or professional dues, and charitable donations exceeds
14 \$100.00.

15 This limitation on the amount of medical expenses
16 that may be claimed by a taxpayer, is very incongruous,
17 when it is compared to the almost unlimited scope that is
18 given to corporations in claiming social and entertainment
19 expenses "made for the purpose of gaining income" as tax
20 deductions. Surely, for a worker whose wages are dependent
21 on his ability to perform his work, nothing is as essential
22 "for the purpose of gaining income" as good health, yet our
23 present income tax laws state that if you are an individual
24 taxpayer, the amount that you may claim as a deduction
25 because of medical expenses is severely limited, but if you
26 are a businessman or a corporation, you may claim anything
27 from membership fees in social clubs to the cost of owning
28 and operating a yacht as a business expense for tax purposes.
29 5. Please refer to Appendix "A" which is a copy of a
30 series of articles written by Mr. John Bird, and published



1 in the Toronto Daily Star. Although I have no means of
2 verifying the statements Mr. Bird has made, because of Mr.
3 Bird's reputation as an outstanding newspaper columnist,
4 and because of the Toronto Daily Star's policy of truthful
5 publication, I submit this series of articles as being
6 factual and present them as evidence in support of the
7 recommendations that follow.

8 6. My second recommendation is that the 3% of net
9 income minimum amount of deductible medical expenses be
10 eliminated, and that all medical expenses incurred by a
11 taxpayer be allowed as an income tax deduction.

12 I further recommend that Section 12 of the
13 Income Tax Act be revised with a view to restricting the
14 lavishness of the so-called "expense account living," and
15 that the business expenses that may be claimed under this
16 section be more rigidly defined.

17 7. In some provinces of Canada provincial government
18 hospital insurance is compulsory, while in other provinces,
19 both provincial hospital insurance plans, and independent
20 health plans, such as Blue Cross, and P.S.I., are available.
21 As a rule, both the premiums paid and the benefits received
22 are similar, whether the plan is operated by a provincial
23 government or another organization. Under the present
24 income tax laws medical expenses paid on a taxpayer's
25 behalf by a contributory hospitalization plan such as Blue
26 Cross may be part of an allowable medical expense, while
27 payments made by a provincial government hospitalization
28 plan, which may also be contributory, may not be claimed.

29 8. My third recommendation is that no distinction
30 be made between payments made for medical expenses on



1 behalf of taxpayers by either provincial government or
2 other contributory hospital insurance plans, and that they
3 all be allowed as income tax deductions.

4 9. One item that is considered taxable income is
5 interest on bank savings, bonds and mortgages, etc., that
6 is received by a taxpayer, and this seems reasonable, but
7 by the same reasoning interest paid by a taxpayer should
8 be considered a deductible expense. This should particu-
9 larly be the case for interest paid on mortgages by home
10 owners, since this interest is again taxed as income by the
11 party receiving the mortgage interest payments.

12 10. My final recommendation is, therefore, that all
13 interest payments made by home owners, on mortgages on
14 homes that they are living in, be allowed as an income tax
15 deduction.

16 11. In summation, I would say that although in the
17 case of the recommendations regarding the standard deduc-
18 tion, and the removal of the minimum amount of the allowable
19 deduction for medical expenses, the change in the amount of
20 tax paid by individual subscribers may be insignificant,
21 yet the fact remains that the present rule covering the
22 application of the standard deduction does penalize certain
23 taxpayers, and maintaining a minimum limit on the amount of
24 allowable medical expenses, while allowing unlimited social
25 and entertainment expenses as deductions for businessmen
26 and corporations is a case of outright partiality.

27 12. In the case of the recommendation for the inclu-
28 sion of mortgage interest as an income tax deduction, I
29 would suggest a comparison of the deductions on personal
30 income tax allowed in Canada, and the deductions allowed in



1 the United States of America. This, in fact, is suggested
2 in Memorandum to Participants No. 6 in the remarks of the
3 Chairman, following the first meeting of the Commissioners
4 on October 10th and 11th, 1962. A request for the allowance
5 of mortgage interest as tax deduction seems very modest when
6 compared to deductions for sales tax, gasoline tax,
7 cigarette tax, property tax and interest paid on instalment
8 purchases that are allowed in the United States. As an after
9 thought, I would add that allowing mortgage interest paid
10 as a deduction, would probably uncover a number of instances
11 in which mortgage interest is received as income, but is not
12 reported as such.

13 13. This brief is respectfully submitted, with the
14 hope that the Royal Commission on Taxation will find it of
15 some value, and that eventually the taxpayers of Canada
16 will benefit from it.

17
18 Appendix "A" consists of copies of a series of
19 articles written by Mr. John Bird and published in the
20 Toronto Daily Star. Although these articles are included
21 in this submission with the permission of the Toronto Daily
22 Star, it is to be understood that the Toronto Daily Star
23 does not necessarily agree with or support any statements
24 or opinions expressed in either the articles or this submis-
25 sion.

26
27
28
29
30



FIRST OF A SERIES

OUTLANDISH U.S. ABUSES OF THE SWINDLE SHEETS

SPUR A CRACKDOWN HERE

By JOHN BIRD, OTTAWA

In the "affluent society" of North America, much of the most ostentatious spending is done nowadays by a privileged class, the "expense-account society." These are the people who can charge off anything from luxurious luncheons to chartering a yacht as "business expenses."

In the case of large concerns paying 52 per cent corporation tax, this means that only 48 per cent of the cost of doing business in this way falls upon the firm in question, with 52 per cent borne by the government in the form of reduced tax receipts. That is, simply borne by the rest of us taxpayers, most of whom have small chance to get in on the expense account gravy.

In his budget on June 20, Finance Minister Fleming served notice that the Canadian government has no intention of allowing "so-called expense-account living" to thrive here and that expenses of this nature "will be subject to more intense scrutiny."

Mr. Fleming's warnings followed closely after the publication of an extraordinary document presented by U.S. secretary of the treasury on May 3 to the committee of ways and means of the House of Representatives in Washington. This listed a large number of tax cases showing both what taxpayers had attempted to get away with as business expenses and what many of them had legitimately succeeded in charging as partly as a result of "payola" exposures.

Richard Gehman, writing in "Cosmopolitan" came



1 up with a new wrinkle in explaining the popularity among
2 corporations of giving expense accounts to its executives
3 and salesman. Firstly, of course, it only costs the
4 company 48 cents out of every dollar thus spent in drumming
5 up customers and enables it to reward its men without
6 rendering them liable to higher personal income tax. But
7 also, "it enables the company to get more work out of its
8 employees. The man who is expected to entertain clients
9 and prospects usually does it after business hours." Nice
10 back-leg labor, if you can get it.

11 What between entertaining and Christmas gifts,
12 the magazine "Spirits" estimated last October that "over
13 one billion dollars or about 10 per cent of all expendi-
14 tures for alcoholic beverages in the U.S. may come out of
15 the corporate treasury."

16 "Printer's Ink" estimated that corporate gift
17 giving had grown from around \$200 million a year in 1950
18 to almost a billion dollars in 1960. The most expensive
19 restaurants in New York and much of the luxury trade depend
20 largely upon expense account spending.

21 EXECUTIVES POLLED

22 The Ohio state university school of journalism
23 conducted a poll among top U.S. executives in 1958. They
24 told of "gifts ranging from trinkets to Cadillacs to
25 \$280,000 in cash to 'the loan of a yacht, liquored, fuelled
26 and girlred.'"

27 Granted that the above are highlights, extreme
28 cases, and that the "best elements" of American business
29 frown upon such practices going all the way from tax chisel-
30 ling to outright bribery. Granted that it would be hard to



1 match these extremes from Canadian records. But still
2 there is enough evidence of "expense account living" in
3 Canada to have the minister of finance worried. Are our
4 tax laws permitting the development of a privileged class
5 of "kept men" here too?

6 SECOND OF A SERIES

7 CANADA'S EXPENSE-ACCOUNT LUXURY

8 YACHTS, HORSES, CADILLACS CLAIMED AS

9 TAX DEDUCTIONS BY BUSINESSMEN

10 By John Bird, Ottawa.

11 Recent Canadian tax cases throw more vivid light
12 upon what is not permissible under the Income Tax act than
13 upon what taxpayers can and do get away with as "expenses"
14 - quite legally. The latter remains largely locked away in
15 the highly confidential records of the income tax department.
16 However, during the past decade there have been some
17 revealing instances.

18 The classical case on social club entertaining
19 to which subsequent decisions of the tax appeal board
20 frequently refer, is the appeal won by the Royal Trust
21 Company before the Exchequer Court in 1957.

22 The Royal Trust had long paid the social club
23 fees and dues of its senior officers such as branch managers.
24 In 1952, for the first time it showed \$9,527 of these
25 (incurred for five officers who had joined clubs that year)
26 as a business expense for tax purposes. The Department of
27 National Revenue objected and won its case before the Tax
28 Appeal Board. However, in a judgment by Mr. Justice Joseph
29 Thorson, the Exchequer Court reversed this and allowed pay-
30 ment of entrance fees and dues as business expense.



1 'UNDERSTOOD RULE'

2 The trust company had also charged up the monthly
3 club accounts of officers to business expense, and the
4 revenue department did not dispute these. However, the
5 court noted that the Royal Trust had an "understood rule"
6 whereby purely personal spending was not charged to the
7 company.

8 The guts of the law governing expense accounts,
9 etc., upon which most cases hinge, in section 12 (1) (A)
10 of the Income Tax act, reading:

11 "In computing income, no deduction shall be made
12 in respect of an outlay or expense except to the extent that
13 it was made or incurred by the taxpayer for the purpose of
14 gaining or producing income from property or a business of
15 the taxpayer."

16 Two Toronto lawyers sought to charge as business
17 expense 85 per cent of the cost of a \$4,000 party thrown
18 for their clients on the occasion of the birthday of one of
19 the partner's daughters. The lawyers submitted that they
20 had arranged the party to regain business, which had been
21 falling off, and had chosen the birthday simply as the
22 occasion of a business party.

23 The Tax Appeal Board ruled that they had failed
24 to establish that this was "for the purpose of gaining or
25 producing income." If this had been a straight business
26 affair with no birthday involved the outcome could have
27 been far different.

28 A Toronto caterer claimed a total of \$2,300 for
29 expenses and capital cost on the operation of a yacht as
30 business expense. The tax board said the expenses seemed



1 to have been incurred "for social entertaining, yacht
2 racing and perhaps pride of ownership." Appeal dismissed
3 because the evidence was "inconclusive" on whether the
4 purpose was to gain income.

5 A Vancouver businessman who kept horses, but no
6 other livestock, on rented land, claimed to be farming and
7 maintaining he was entitled to deduct losses of \$2,380 over
8 two years for income tax purposes. He and his two children
9 rode the horses at various shows including the Toronto
10 Winter Fair. Appeal dismissed.

11 The president of a house-repairing concern in
12 Calgary, who was also a principal salesman, claimed capital
13 cost allowance on his Cadillac. Tax Appeal Board allowed
14 his appeal in part but halved the amount as it found that
15 he did not need so big a car for his business.

16 WON'T PLAY BALL

17 A distributing agent for a Quebec brewery wanted
18 to charge \$11,000 over two years spent for sponsoring a
19 baseball team as advertising expenses. His appeal was
20 allowed in part - \$5,600 okayed. A sponsor of a prairie
21 baseball team was allowed to charge only \$5,000 out of a
22 claimed \$22,000 as advertising expense. The board found he
23 could have put on an effective newspaper or radio adver-
24 tising campaign for the smaller sum.

25 In one of the most revealing tax board rulings,
26 a whisky and gin distributing company was allowed to charge
27 the club dues of 17 salesmen as business expense for tax
28 purposes. The case was held in camera and dollar amounts
29 were not made public.

30 The minister of national revenue had disallowed



1 the tax deductions as not representing an expense in
2 earning income. The appellant maintained that one of the
3 best ways of "establishing personal contact with potential
4 consumers" was through club memberships. This liquor
5 distributing concern therefore "established the policy more
6 than 15 years ago of requiring all its sales representatives
7 to join appropriate clubs and to mingle with the other
8 members with a view to increasing sales of the company's
9 brands." It argued further, that "only as a member of a
10 club is a sales representative in a position to influence
11 the buying policies of the club and the method of selling
12 distillery products at the club bar."

13 The tax appeal board found that the liquor firm's
14 policy was accepted business practice, was designed to earn
15 income, and therefore allowed the appeal.

16 LAST OF A SERIES

17 "WE'RE FEEDING CREAM TO FAT CATS"

18 EXECUTIVES' EXPENSE ACCOUNTS 'MAKES

19 SUCKERS OF TAXPAYERS'

20 Ottawa

21 To an extent only less than in the United States,
22 expense account living makes suckers of the government, as
23 tax collector, and of the people, as ordinary taxpayers -
24 in Canada, too.

25 Here, as there, the tax law allowing businesses
26 to show entertainment and allied expenditures as business
27 costs has created a privileged class of social clubmen,
28 golfers and even "fishermen" living it up on their compa-
29 nies' tax deductions.

30 These are Canada's "dept. men" - kept in a



1 degree of luxury living to which ordinary taxpayers can
2 hardly aspire.

3 You are invited to a swank club with rich leather
4 upholstery, or to a jazzy country club with velvet greens
5 on its golf course. Chances are good that your host has
6 not paid his own entrance fee or his club dues. His
7 company pays them. If you have anything resembling a
8 "contact," he won't be paying for your lunch or the drinks,
9 either. His company picks up the tab. Tax deductible.

10 Now, if it's a big, profitable company, this
11 hospitality will only cost it 48 cents on the dollar (in
12 Ontario), provided it goes through the motion of showing
13 that this was a business expense "for the purpose of"
14 producing income.

15 The criterion is "intent," not results. This
16 loophole in the law opens up wide possibilities of abuses.
17 It can conceal a multitude of social sins, since intentions
18 are hard to disprove. Businessmen may wine and dine each
19 other (potential customers, of course) until they burst
20 from obesity or cirrhosis of the liver, but still maintain
21 that they are business martyrs, only guzzling in the hope
22 of gaining income for their "corporations," public relations
23 men vie with sales executives as North America's highest,
24 widest, handsomest expense spenders.

25 What makes such suckers of the government and the
26 people is that it is the other taxpayers who too often pick
27 up the other 52 cents on the dollar on those luncheon tabs.
28 With corporation tax at 52 per cent and business entertain-
29 ment expenses deductible, the public at large is paying
30 half the shot for the richer corporations doing business in



1 this way, because tax receipts are correspondingly reduced.

2 Because of the nature of the company's business
3 requiring wide contacts, comparatively few eyebrows may
4 have been raised over the now classical Royal Trust case,
5 permitting it to charge social club dues and fees as busi-
6 ness expense. But the same principle applies to golf clubs
7 and even fishing clubs and what-have-you provided member-
8 ship is taken out with a view to promoting business.

9 When it gets to the point where gin and whiskey
10 distributors can show the club fees of their salesmen as a
11 business expense, through "mingling" and pushing the
12 company's brands - as was found legal in a Canadian tax
13 case - ordinary mortals wonder whether the law itself is
14 not an ass.

15 'BIG GIFTS'

16 This same principle whereby expenditures may be
17 tax-deductible provided they are made with the intent of
18 gaining business income extends to cover such things as
19 business "gifts" - not only at Christmas. Strangest "gift"
20 mentioned to me was a brand new Buick, extracted from a
21 ship chandlers firm in Montreal by the captain of an
22 incoming freighter, for the privilege of unloading his
23 ship. A rival who refused to have the car on the dock to
24 greet the vessel lost the business to this more accommoda-
25 ting Chandler. American executives have classed such gifts
26 as "hold-ups" at one end and "bribery" at the other.

27 But it is "expense account living" which is
28 currently engaging the attention of the federal government.
29 In his June 20 budget speech Finance Minister Fleming
30 uttered this warning:



1 "Since ours is a free enterprise economy, our
2 income tax law assumes that the businessman is
3 the best judge of the extent to which he should
4 incur expenses of this nature, and naturally the
5 government has been reluctant to recommend, and
6 Parliament to impose rules that would restrict
7 him unduly in this respect. However the govern-
8 ment has no intention of allowing so-called
9 'expense account living' to thrive and I am
10 consequently serving notice that in future the
11 allowances of expenses of this nature will be
12 subject to more intensive scrutiny. I am hopeful
13 that more stringent legislation will not prove to
14 be necessary."

15 Ordinary mortals may be permitted to doubt whether
16 abuses can be checked by scrutiny, however "intensive."
17 Unless the law is revised there is little likelihood that
18 even grave abuses can be eliminated.

19 Tax authorities are shy about proposing a drastic
20 revision of Section 12 of the Income Tax Act (covering
21 "purpose of gaining income") because they feel that revi-
22 sion would entail endless court cases to establish the new
23 position. But there has been some discussion of amending
24 the act so as to permit the revenue department to lay down
25 regulations putting a dollar limit on per diem expenses,
26 expenditures on entertainment per head, and so forth.

27 Personally, I believe there will have to be a more
28 drastic revision of the law. The government seems not too
29 disturbed about the expense account system itself, though
30 Mr. Fleming is rightly concerned about abuse of it.



1 But meanwhile there is that privileged class of
2 free spenders, living "high on the hog" from tax deductions,
3 as ordinary Canadians cannot hope to do. Under our law, we
4 are serving up cream to fat cats.

5 April 5th, 1963.

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SUMMARY OF SUBMISSION

Presented By The

ONTARIO CREDIT UNION LEAGUE LIMITED

To The

ROYAL COMMISSION ON TAXATION

1. The Ontario Credit Union League Limited makes this submission both on its own behalf, and on behalf of its 1,370 member credit unions in Ontario with a two-fold purpose:

1) To demonstrate our conviction that credit unions should remain exempt from income tax.

2) To answer demands that credit unions should be subject to income tax.

2. Credit Unions exist to encourage thrift and to provide low-cost loans, and are owned and operated solely by the members for the benefit only of the members. Credit unions arose out of human need and from the philosophy that every man is his brother's keeper.

Credit unions are operated by member-elected officers, and are controlled by provincial legislation which provides for their regular inspection.

The capital of a credit union is provided by its members in the form of \$5.00 shares, upon which dividends are declarable by the members in Annual Meeting, and by deposits at pre-determined rates of interest fixed by the Board of Directors.

Should its capital prove inadequate at any time, a credit union may borrow up to 50% of its capital, deposits and surplus, under certain conditions laid down in



1 The Credit Unions Act. The bulk of this borrowing is from
2 our own League Central Department.

3 Every credit union is required under statute to
4 set aside at least 20% of its yearly net earnings as a
5 Guarantee Fund to meet losses on uncollectable loans.
6 After providing for this reserve, most of the balance of
7 net earnings is returned to members as dividends on
8 shares, and rebates on loan interest paid. Most of what
9 is left is used for educational purposes or put into
10 specific or general reserves.

11 The bulk of credit union assets is represented
12 by loans to members. Most of the remainder is represented
13 by liquid assets (cash, deposits, etc.) and by longer term
14 investments mostly in Government or Government guaranteed
15 Bonds.

16 Ontario credit unions, with half-a-million
17 members, and \$275,000,000 in assets, have an increasingly
18 significant place in the economy of this province.

19 3. A credit union differs in many ways from other
20 financial organizations, but basically as follows:

21 a) It is a true mutual, owned entirely by its
22 members, and existing only for them.

23 b) It is essentially a service organization,
24 and does not exist to compete with other organi-
25 zations.

26 c) Voluntary workers have played, and still
27 play, a large part in the organization,
28 development and operation of credit unions.

29 d) It is a non-profit organization, and could,
30 ideally, operate on a strict cost basis, as all



1 surplus earnings are either returned only to
2 the members or set up as necessary reserves.
3 e) Credit union shares differ from those of an
4 ordinary corporation in numerous ways, such as:

- 5 1) Unlimited share capital.
- 6 2) Fixed value of shares, which never
7 varies.
- 8 3) Only one type of share.
- 9 4) Shares do not carry voting power, but
10 membership does.
- 11 5) Shares, in practice, are withdrawable
12 on demand.

13 f) Statutory reserve of 20% of yearly net
14 earnings required against uncollectable loans.

15 4. Credit Unions and their Leagues pay no income
16 tax under Canadian Income Tax Act, Chapter 148, R.S.C.
17 1952, Section 62 (1) (k), which particularly provides
18 that business must be restricted to one province, and
19 that revenues are primarily derived from loans to members
20 and from gilt-edged securities. In 1961, 94.7% of League
21 member credit unions' income was derived from loans to
22 members.

23 The Royal Commission on Co-Operatives (1945)
24 after a thorough study of Canadian credit unions recommen-
25 ded "that the income of Credit Unions.....continues to be
26 excepted from taxation....."

27 5. This League submits that the present tax position
28 of credit unions should be maintained for the following
29 reasons:

30 a) Credit Unions have no true profit, being



1 service organizations which could operate at
2 cost.

3 b) Credit Unions are subsidized by voluntary
4 workers, whose gratuitous labour should not be
5 subject to taxation.

6 c) Double taxation would be the result of
7 taxing credit unions' net earnings, much of
8 which is taxable in the hands of the members.

9 d) Credit Union members in Ontario, through
10 dues, paid to their League, pay a large part
11 of the cost of their own supervision.

12 e) Tax revenue potential would be negligible,
13 because net earnings could be reduced in the
14 following ways:

15 (i) Interest rates on loans to members
16 could be reduced in lieu of paying a
17 rebate out of net earnings.

18 (ii) The bulk of a credit union's capital
19 could be raised through deposits on which
20 interest would be paid and charged as an
21 expense.

22 (iii) Voluntary workers could be paid.

23 (iv) Educational expenditure could be
24 charged as an expense rather than being
25 allocated from net earnings.

26 (v) Reserves against bad debts could be
27 brought into line with commercial practice,
28 thus reducing Guarantee Fund reserves.

29 6. The Equitable Income Tax Foundation in their
30 Submission to the Royal Commission on Banking and Finance



1 in 1962, to support its contention that credit unions
2 should be taxed, stated:

- 3 a) That the tax position of credit unions has
4 induced an unnatural rate of growth in the
5 movement,
- 6 b) That credit unions have used a large part
7 of untaxed profits for expansion purposes,
- 8 c) That credit unions show a profit on that
9 part of their members' deposits which is
10 invested in securities,
- 11 d) That credit unions "unfairly compete" with
12 fully taxed competitors,
- 13 e) That continued growth of credit unions works
14 to the detriment of fully taxed competitors,
- 15 f) That credit unions should be taxed like
16 ordinary companies.

17 All these contentions have been answered in our main
18 submission, and we think, repudiated.

19 7. The Ontario Credit Union League Limited humbly
20 suggests to the Commission that it recommends to the
21 Government that credit unions and their Leagues continue
22 as at present, not subject to income tax.

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1 TO: Mr. Kenneth LeM. Carter, Chairman
2 and Members of the Royal Commission on Taxation

3

4 Gentlemen:

5 On behalf of the Ontario Credit Union League
6 Limited, we are pleased to submit herewith our Submission
7
8 on Taxation.

9
10 We feel quite confident that the Commission will
11 give our presentation favourable consideration. The
12 Ontario Credit Union League Limited is very happy to volun-
13
14 teer the information contained in this Submission and its
15 Appendices, and is most willing to assist the Commission
16
17 in any way it can.

18
19 The Ontario Credit Union League Limited in the
20 preparation of this Submission has attempted to comply with
21
22 all the guides and directives suggested by the Commission.
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I N D E X

- I Introduction.
- II Reasons for presenting Submission.
- III Limited scope of Submission.
- IV What is a Credit Union?
- V Wherein does a Credit Union differ from other financial organizations?
- VI Present tax position of Credit Unions.
- VII Why the present tax position of Credit Unions should be maintained.
- VIII Arguments for taxing Credit Unions answered.
- IX Conclusion.



I INTRODUCTION

P1 This submission is made by the Ontario Credit Union League Limited both on its own behalf, and on behalf of the 1,370 credit unions in Ontario which are members of this League.

P2 The Ontario Credit Union League Limited was incorporated in 1942 under provincial charter, being a voluntary association of provincial credit unions, and acting as the co-ordinating body for them and for the 28 local area associations known as Chapters. Currently it is operating under By-Laws revised in 1961 (Appendix 1).

P3 The objects and purposes of the League are clearly set out in the Credit Unions Act, 1961; Section 53(1) reads:

"Ten or more credit unions may be incorporated as a league for the object and purpose of,
(a) protecting and advancing the credit unions that are members of the league;
(b) encouraging and assisting educational and advisory work relating to credit unions;
(c) arranging for group bonding of credit union employees and ensuring repayment of loans made by credit unions to their members;
(d) receiving moneys from its members either as payment on shares or as deposits; and
(e) making loans to credit unions that are members of the league."

P4 Section 53 (7) reads:

"Any competent person authorized by a league incorporated under this section may examine



1 into the affairs of any credit union that is
2 a member of the league and for such purpose
3 he shall be given access to all books, records
4 and other documents of the credit union and he
5 may make whatever inquiries are necessary to
6 ascertain its true condition and its ability
7 to provide for the payment of its liabilities
8 as they become due, and the officers and
9 employees of the credit union shall facilitate
10 him in his examination and inquiry."

11 P5 Generally, the League's functions include organi-
12 zation, education, publicity, and examination of credit
13 unions (co-operating with the Credit Unions Branch of the
14 Ontario Department of Insurance in the latter field). The
15 League also works closely with the Provincial Government in
16 connection with changes in credit union legislation.

17 P6 The Administration Department of the League is
18 financed by dues of \$1.00 per year paid by members of
19 member credit unions. In addition the League Central
20 Department exists to receive surplus funds from member
21 credit unions by way of shares and deposits, and to loan
22 money to credit unions needing extra funds.

23 P7 The League is a member of the Credit Union
24 National Association (CUNA), and pays to CUNA nine cents
25 of every dollar of the above mentioned dues.

26 P8 The League holds an Annual Meeting to which
27 every member credit union is entitled to send one delegate
28 and one alternate delegate. At the Annual Meeting League
29 Directors are elected, policies made, and the general
30 business of the League discussed and resolved.



1 P9 The League Board of Directors consists of
2 eighteen men from all parts of the Province. A permanent
3 staff of some 55 employees perform the day-to-day work of
4 the organization. The staff is headed by a General Manager
5 who is directly responsible to the Board of Directors.

6
7 II REASONS FOR MAKING SUBMISSION

8 P10 The Ontario Credit Union League decided to make
9 this Submission for the following reasons:

10 (1) To demonstrate our firm conviction that
11 credit unions in Ontario, and their League,
12 by their very nature, should remain as they
13 are at present, not subject to income tax.

14 (2) To answer the demands of certain other
15 organizations that credit unions be subject
16 to income tax.

17
18 III LIMITED SCOPE OF SUBMISSION

19 P11 Whilst it is recognized that the terms of
20 reference of the Commission are all-embracing in the field
21 of taxation, the contents of this Submission must neces-
22 sarily be limited due to the restricted activity of credit
23 unions, and to the lack of developed opinion on broader
24 matters by the organized credit union movement in Ontario.

25
26 IV WHAT IS A CREDIT UNION

27 P12 (A) Definition

28 A credit union in Ontario is an association of
29 people, in membership together under a common bond, incor-
30 porated under provincial charter, for the main purposes of



1 encouraging savings and providing low-cost loans, owned
2 and operated solely by the members for the benefit only
3 of the members.

4 P13 (B) Origin and growth

5 Credit unions were first introduced into North
6 America at Levis, Quebec, by Alphonse Desjardins in 1900,
7 and into the United States in 1909. In Ontario 1913 saw
8 the formation of the province's first credit unions,
9 although the first credit union charter was not issued
10 until 1928.

11 P14 By 1949 there were some 423 active credit unions
12 in Ontario with total assets in excess of \$21,000,000 and
13 by 1962 the number of credit unions in the province had
14 risen to more than 1450 with total assets of approximately
15 \$275,000,000. 1370 of these credit unions are members of
16 this League, and they can be classified according to their
17 bond of association as follows:

18	Industrial	720
19	Community	165
20	Religious	215
21	Government - civic, provin-	
22	cial, and fed-	
	eral	135
23	Ethnic, labour and assoc-	
24	ational	<u>135</u>
		<u>1370</u>

25 P15 (C) Philosophy

26 Credit unions, both in Europe and North America
27 were born out of human need, delivering people from the
28 rapacious usurer, and also providing them with the means
29 by which, in some measure, they could control their own
30 financial and economic destiny.



1 P16 The philosophy of credit unions is grounded in
2 the simple idea that "I am my brother's keeper." Hence
3 the association of people with a common bond - industrial,
4 community, religious, government, ethnic, etc., pooling
5 their resources through savings, and making available those
6 funds for members needing to borrow, with all surpluses
7 after statutory and other necessary reserves being returned
8 to the member.

9 P17 (D) Operation

10 A credit union is operated by a Board of Directors,
11 which is responsible for the overall administration, a
12 Secretary and Treasurer, a Credit Committee which approves
13 loans, and a Supervisory Committee which examines and
14 audits the records and books. The Board and Committees are
15 elected by the membership.

16 P18 Ontario credit unions are controlled by provin-
17 cial legislation in the form of the Credit Unions Act and
18 the Corporations Act, and are open to government inspection,
19 whilst those credit unions in membership with the League
20 are open also to examination by the League. The employment
21 of external auditors is not statutory, though many credit
22 unions do employ them. The inspections and examinations
23 referred to above are comprehensive enough to provide effi-
24 cient province-wide supervisory control of credit unions.

25 P19 (E) Financial Structure

26 Liabilities

27 Shares

28 There is only one class of shares represented in
29 the capital of a credit union. The Credit Unions Act,
30 Section 19 reads:



"A credit union may create a capital divided into shares, and the amount thereof, the number of shares, and the payments thereon, shall be determined by its by-laws, but the amount of each share shall in no case exceed \$10."

However, the Ontario Standard By-Laws, Article III,1, (Appendix 2) limits the value of each share to \$5.00, which is the norm for Ontario credit unions.

P20 A dividend may be paid annually on shares, on the recommendation of the Board of Directors, and on the approval of the members at the annual meeting. The Credit Unions Act, Section 44 reads:

"At each annual meeting a credit union may by resolution upon the recommendation of the board of directors declare a dividend payable to all members at the end of the previous fiscal year on the amounts paid in on shares held by such members at any time during the year as is determined by the resolution."

P21 Government statistics for 1961, (Appendix 3) indicates that overall, Shares represented 69% of credit union liabilities.

P22 Shares have formed by far the largest part of credit union liabilities in Ontario for the following reasons:

1. Shares have always been regarded as the fundamental "capital" of a credit union, and as the members own the organization, it seemed natural to express that ownership by investment in shares. Deposits were regarded as secondary, being introduced for personal



1 chequing service or to attract more new money than shares
2 were providing.

3 2. Members investing in shares, share a common
4 liability -- to the extent of their shareholding, whereas
5 depositors are preferred creditors. Credit union philo-
6 sophy suggests to us that a preponderance of shareholding
7 over deposits is more in keeping with the credit union
8 idea.

9 3. The fact that shares form the major part of a
10 credit union's liabilities results in larger allocations
11 to the Guarantee Fund. Deposit interest is usually charged
12 as an expense, thus reducing net profits on which the 20%
13 statutory allocation to the Guarantee Fund is based. Divi-
14 dends on shares are, of course, a distribution from
15 Undivided Earnings (net profit plus accumulated surplus).

16 P23 Deposits

17 Deposits are permitted under Section 4 (1a) of
18 The Credit Unions Act:

19 "the receiving of moneys on deposit from members
20 and as payment for shares."

21 and under Article IV (1) of the Standard By-Laws (Appendix
22 2). Two classes of deposits are commonly used by credit
23 unions:

24 (a) Regular deposits, bearing interest,
25 generally depending on length of time funds
26 remain on deposit. Interest rates generally
27 vary between 3 and 5 per cent.

28 (b) Deposits for personal orders offered
29 by about 6% of Ontario credit unions. Interest
30 rates vary from nil to 3%.



1 P24 Government statistics for 1961 (Appendix 3) indi-
2 cate that overall, Deposits represented 18% of credit union
3 liabilities.

4 P25 Loans Payable

5 A credit union may borrow up to 50% of its
6 capital, deposits and surplus. The Credit Unions Act reads:
7 Section 36,

8 "The board of directors of a credit union may
9 pass resolutions for borrowing money but at
10 no time shall the total amount borrowed exceed
11 50 per cent of its capital, deposits and
12 surplus."

13 Section 37,

14 "Nothing in section 36 limits the amount that
15 may be received on deposit from members."

16 Section 38,

17 "No resolution referred to in section 36 takes
18 effect until it has been confirmed by a vote
19 of not less than two-thirds of the members
20 present or represented by proxy at a general
21 meeting of the credit union, duly called for
22 considering the resolution by notice specifying
23 the terms of the resolution to be confirmed,
24 or until unanimously sanctioned in writing by
25 the members of the credit union, but no confir-
26 mation of any such resolution is required
27 when the total sum borrowed does not exceed
28 25 per cent of the capital, deposits and
29 surplus of the credit union."

30 P26 The bulk of the borrowing is from the League



1 Central, with the Ontario Co-operative Credit Society and
2 chartered Banks providing most of the balance. Loans
3 Payable (Borrowing) accounted for 4% of total liabilities
4 in 1961 (Appendix 3).

5 P27 Guarantee Fund Reserve

6 Section 28 (1) of the Credit Unions Act provides
7 that "Every credit union shall set aside at least 20 per
8 cent of its yearly net profits as a guarantee fund to meet
9 losses, and the fund shall be held as a reserve against
10 uncollectable loans and losses, but where at the close of
11 any fiscal year the amount set aside for the guarantee fund
12 equals at least 10 per cent of the total amount received
13 from members on deposit and as payment for shares, the
14 directors may, subject to the approval of two-thirds of
15 the members present at the annual meeting, direct that no
16 moneys be set aside for the guarantee fund for the then
17 current year."

18 P28 The Government statistics for 1961 (Appendix 3)
19 indicate:

20	Guarantee Fund	\$9,032,120	
21	Plus 20% of 1961 Earnings	<u>2,497,975</u>	
	Total		<u>\$11,530,095</u>

22 This total represents 5.2% of members' loans.

23 P29 Undivided Earnings

24 The net earnings of a credit union for a fiscal
25 year (income less expenses) are credited to an Undivided
26 Earnings account. After providing for the statutory
27 Guarantee Fund reserve of 20% (para. 27 above), most of the
28 balance is returned to members in the form of dividends on
29 shares, and often in rebates on loan interest paid during
30 the year. Frequently there is a balance left in the



Undivided Earnings account. Some credit unions make a practice of building this account up as a reserve fund, sometimes transferring amounts from Undivided Earnings to a Contingency, Building or General Reserve. Such reserves would be available for future use as the membership might determine.

P30 Other Funds and Reserves

These generally consist of Contingency, Building and General Reserves (see para. 29 above) and Educational Funds. Regarding the latter, The Credit Unions Act 1961, Section 28 (2) states:

"A credit union may by resolution of the members provide that, after making provision for the guarantee fund and before declaring a dividend, an amount not exceeding 5 per cent of the net earnings be set aside in a special fund to be used for such educational purposes as are specified in the resolution."

P32 Assets

Loans to members. The basic policy of credit unions regarding investment of funds received is to loan out the bulk of such funds to members. The government statistics for 1961 (Appendix 3) indicate that an overall average of 82.6% of credit union assets are represented by loans to members.

P33 Other Assets

The same statistics indicate the breakdown of other credit union assets as follows:

(a) Cash	6.1%
(b) Investments	9.8%
(c) Land & Buildings	0.9%



(d) Other Assets (Equipment, 0.8%
Prepays etc)

P34 (F) Economic Significance

This League feels that Ontario credit unions have an increasingly important place in the economy of the province and in the well-being of its people, more than half-a-million of whom are credit union members. Among the accomplishments of these credit unions we mention the following:

1. Successful encouragement of thrift.
2. Making available low-cost loans to many people not otherwise eligible for such loans.
3. The training of thousands of voluntary workers who give time and talents in the service of their fellow-men.
4. Family financial counselling.
5. Improvement of relations between labour and management by industrial credit unions.
6. Improvement of local economic conditions through strong community credit unions.

V WHEREIN DOES A CREDIT UNION DIFFER

FROM OTHER FINANCIAL ORGANIZATIONS?

P35 (A) True mutual

A credit union is wholly owned by its members, accepting moneys for shares and deposits only from members, and making loans only to members. Section 4 (1) of The Credit Unions Act 1961 states:

"Credit unions may be incorporated having for their object and purpose,



(a) the receiving of moneys on deposit from members and as payment for shares;
(b) the making of loans to members with or without security for provident and productive purposes."

P36 A credit union's financial dealings with non-members is generally confined to its banker, and to those organizations with which its surplus funds are invested.

P37 The Ontario Credit Union League Statistics for 1961 (Appendix 4) indicate that investments represented 8.2% of credit union assets, broken down as follows:

In Ontario Credit Union League	3.3%
In Ontario Co-operative Credit Society	1.6%
In Government and Government Guarantee Bonds	2.5%
In other investments	.8%
	<u>8.2%</u>

A credit union's income, therefore, is mainly derived from transactions with the members, and operational earnings are returned to the members only.

P38 It is relevant here to note that a credit union cannot be taken over by foreign-owned interests. It is owned by Ontario residents, and it is restricted to carrying on business in the province. It must by its nature be and remain Ontario and Canadian-owned. (See quotations from Canadian Income Tax Act (para. 52-1, below)

P39 (B) Service organization

A credit union is essentially a service organization. It exists solely to serve its members who are linked by the common bond of employment, religious, racial origin etc. It does not exist to compete with other financial



1 organizations, but just to serve its own members. It has
2 no need to engage in any kind of competitive activity,
3 because its scope of operation is limited to its own
4 members, to whom it offers a reasonable return on savings,
5 and low-cost loans, with both savings and loans being
6 insured.

7 P40 Alphonse Desjardins, founder of the credit union
8 movement in North America, described the organization as
9 "the institutional expression of high social ideals."

10 P41 (C) Voluntary Workers

11 The credit union movement in Ontario was founded
12 and largely built up by volunteer, unpaid workers. In
13 testimony before the Royal Commission on Co-operatives,
14 1945, the then President of this League, the late Mr. R.
15 Macdonald, speaking of his own Credit Union, of which he
16 was an officer, stated that his credit union officers did
17 not receive any remuneration whatsoever for the work they
18 did for the credit union.

19 P42 Due to the tremendous growth of the movement
20 since then, the position has of necessity changed somewhat.
21 Upwards of 150 credit unions in Ontario now employ full-
22 time staff, whilst others engage part-time help. Some
23 credit unions pay small honoraria to officers who are not
24 employees, but many do not pay anything. The minimum
25 number of officers a credit union can have in Ontario is
26 11 (5 on the Board of Directors, 3 Supervisory Committee
27 and 3 Credit Committee). Boards sometimes have as many as
28 12 directors, whilst Credit Committees sometimes have up to
29 7 members. As there are more than 1,450 credit unions in
30 Ontario, there must be at least 15,950 officers, the large



1 majority of whom receive no remuneration or at best a
2 small honoraria to cover necessary expenses of attending
3 meetings.

4 P43 The main reason for the large volume of unpaid
5 voluntary work in our credit unions is that the persons
6 concerned are imbued with the philosophy of credit unionism,
7 and so are glad to give time and energy in serving their
8 fellows.

9 P44 (D) Non-profit organizations

10 Essentially, a credit union is not in business
11 to make a profit. It exists to encourage thrift in its
12 members and to make low-cost loans out of the members' own
13 savings.

14 P45 At the fiscal year-end, after providing for the
15 statutory reserves (20% of net earnings), a credit union
16 pays a reasonable return on the members' savings, and if
17 there are sufficient net earnings remaining, makes a
18 rebate on loan interest paid by members during the year.

19 P46 A credit union could, ideally, operate on a
20 strict cost basis, by paying a fixed, predetermined
21 interest rate on members' deposits in the credit union,
22 which interest would be a charge against income, and by
23 reducing the interest rate charged on loans to members.
24 Earnings or "profits" would thus be virtually eliminated.
25 The reasons why credit unions do not so operate, are as
26 follows:

27 (1) Shares have always been regarded as the
28 fundamental "capital" of a credit union, and as such are
29 eligible for a declarable dividend at the Annual Meeting.
30 Deposits, bearing fixed interest charged against income,



1 have always been a secondary source of funds, being intro-
2 duced for personal chequing service, or to attract more
3 new money than shares were providing.

4 (2) Section 29, (2) of the Credit Unions Act
5 1961 states:

6 "Interest together with all charges and penal-
7 ties shall not exceed 1 per cent per month on
8 the unpaid balance of any loan."

9 This rate of 1% is charged by the majority of Ontario
10 credit unions, though lower rates are often charged by
11 rural credit unions. The reason for the 1% charge is two-
12 fold, that it is so easily calculated, and that it could
13 be difficult to estimate the operating costs of the credit
14 union sufficiently accurately to reduce the interest rate
15 to a minimum figure without risking an operating loss.

16 P47 (E) Share Capital

17 The shares of a credit union are generally
18 different from those of an ordinary corporation in the
19 following ways:

20 (1) A credit union has no fixed share capital,
21 that is, it may accept monies for shares from members to
22 an unlimited amount, and no share certificates are issued.

23 (2) A share has a fixed value, usually \$5.00,
24 which value never varies.

25 (3) There is only one type of share, rather than
26 common and preference, cumulative or non-cumulative etc.
27 as may be found in other corporations. All shares qualify
28 equally for the same dividend.

29 (4) Shares do not carry voting power, but
30 rather, membership does; one member, one vote, irrespective



1 of the number of shares held.

2 (5) In practice credit union shares are with-
3 drawable on demand, subject to being a security on a loan.
4 The Board of Directors is empowered to require 60 days'
5 notice of withdrawal of shares (By-Laws Article III, 3 -
6 see Appendix 2), but in practice this is seldom done.

7 (6) "A member is not liable to the credit union
8 for shares subscribed for in excess of the amount actually
9 paid thereon." (Section 20 (3) of The Credit Unions Act).

10 P48 (F) Statutory Reserve

11 Every Ontario credit union is required under
12 Section 28 (1) of the Credit Unions Act, to set aside at
13 least 20 per cent of its yearly net earnings as a guarantee
14 fund to meet losses. (see para. 27 above).

15 P49 Uncollectable loans are written off against this
16 reserve fund, and where the fund is inadequate, a credit
17 union may (by consent of the members) allocate more than
18 the required 20% of net earnings.

19 P50 This statutory reserve is in contrast with the
20 practice of ordinary corporations of setting up reserves
21 for bad debts based on the actual or potential loss situa-
22 tion.

23

24 VI PRESENT TAX POSITION OF CREDIT UNIONS

25 P51 Credit unions in Ontario pay municipal taxes
26 where applicable and all credit unions pay a provincial
27 "place of business" tax of \$5.00 per year.

28 P52 Credit unions or Credit Union Leagues do not pay
29 any income tax in accordance with the Canadian Income Tax
30 Act, Chapter 148, R.S.C. 1952, under Section 62 (1) (k)



1 which reads:

2 "No tax is payable under this Part upon the
3 taxable income of a person for a period when that person
4 was.....a corporation or association incorporated or
5 organized as a credit union or co-operative credit society
6 if:

7 (i) it was restricted to carrying on business
8 in one province, and it derived its revenues
9 primarily from

10 (A) loans made to, or cashing cheques for,
11 members residing within the province,

12 (B) bonds of, or guaranteed by, the govern-
13 ment of Canada or a province, or

14 (C) loans made to a co-operative credit
15 society of which it is a member, or

16 (ii) the members thereof were corporations or
17 associations

18 (A) incorporated or organized as credit
19 unions substantially all of which derived
20 their revenues primarily from loans made
21 to members or from bonds of, or guaranteed
22 by, the Government of Canada or a province,

23 (B) incorporated, organized or registered
24 under provincial co-operative legislation
25 or governed by such legislation, or

26 (C) incorporated or organized for chari-
27 table purposes, or were corporations or
28 associations no part of the income of
29 which was payable to, or otherwise bene-
30 fited personally, any shareholder or



1 member thereof."

2 P53 As previously noted, the Ontario Credit Union
3 League and all Ontario credit unions are restricted to
4 carrying on business in this province - (1) above.

5 P54 As will be seen by the League 1961 statistics
6 (Appendix 4), 94.7% of our credit unions' income was
7 derived from loans made to members - (1) (A) above, whilst
8 3.1% of their income was derived from investments; the
9 bulk of the investment outside the credit union movement
10 being in Government or Government guaranteed bonds - (1)
11 (B) above.

12 P55 The Ontario Credit Union League qualifies under
13 (11) (A) above.

14 P56 We feel that it might be relevant here to quote
15 from the Report of the Royal Commission on Co-operatives
16 (1945), pp 52 and 53:

17 "No submissions were made to the Commission from
18 business interests expressing opposition to credit unions
19 or claiming that credit unions should be taxed on the
20 ground that they are competing with other types of business
21 enterprise. The contention was advanced, however, that no
22 business enterprise should be entitled to exemption and
23 that no exception should be made in the case of credit
24 unions or federations thereof.

25 We are satisfied that credit unions perform a
26 highly useful function in assisting people who are unable
27 to take effective advantage of savings and loan facilities
28 provided by other lending institutions. We are also satis-
29 fied that credit unions are not displacing any other type
30 of business enterprise, except to provide an alternative



1 source of loans in a field where individual money lenders
2 or lending institutions do not provide similar credit faci-
3 lities at comparable net rates. It is clear, therefore,
4 that unions provide a useful supplement to other lending
5 institutions and that the continued development of credit
6 unions is desirable from the standpoint of the public
7 interest.

8 Credit unions return to their members a very
9 high proportion of their surplus earnings. In some cases,
10 however, they are retaining amounts which appear to be
11 larger than are required for reserves against bad loans
12 and losses on the basis of past experience. If they were
13 to be taxed by the methods we have recommended for co-opera-
14 tive associations, additions to these excess reserves
15 would be made subject to tax. However, the individual
16 amounts to be assessed would, in many cases, be very small.
17 Moreover, we consider that it is not desirable to discourage
18 the accumulation of reserves to protect the savings of
19 members who, for the most part, receive small or very
20 moderate incomes."

21 P57 Under the "Summary of recommendations regarding
22 credit unions," the report states:

23 "That the income of credit unions....continue
24 to be excepted from taxation....."

25
26 VII WHY THE PRESENT TAX POSITION OF
27 CREDIT UNIONS SHOULD BE MAINTAINED

28 P58 (a) No true profit

29 As indicated in paras. 44/46 above, a credit
30 union is substantially a non-profit corporation, which



1 could operate virtually at cost, but for the practical
2 reasons stated in para. 46, it returns the bulk of the
3 net earnings after statutory reserves to the members.

4 P59 In other words, a credit union is a restricted
5 group of people pooling their resources and lending from
6 those resources to those within the group who need to
7 borrow.

8 P60 Again we stress that credit unions are not in
9 business for profit, but to encourage thrift, offering a
10 reasonable return to the members on their savings, and to
11 provide insured low-cost loans to the members.

12 P61 (b) Voluntary Workers

13 As explained in paras. 41 and 42 above voluntary
14 unpaid workers have played, and still play, a large part in
15 the operation of credit unions. If all these workers were
16 paid at a reasonable rate for the time they devote to their
17 credit unions, net earnings would be considerably reduced.
18 In effect, such voluntary workers are subsidizing their
19 credit unions, and to make credit unions subject to income
20 tax would be tantamount to taxing the countless thousands
21 of hours selflessly spent by these individuals in the
22 service of their fellows.

23 P62 (c) Double Taxation

24 Dividends paid by credit unions, and usually
25 credited to members' share accounts rather than paid out
26 in cash, are taxable in the hands of the member, if of
27 course his income is in the taxable class. The same is
28 true of interest rebates in those cases where the relevant
29 loans were for business purposes, and the interest paid
30 thereon was claimed as an expense.



1 P63 If credit unions were subject to income tax,
2 then the taxing of dividends and rebates in the hands of
3 the recipients would amount to double taxation.

4 P64 (d) Supervision

5 Originally Ontario credit unions were administered
6 by the Department of Agriculture. In 1953 the Department
7 of Insurance took over their administration, and a program
8 of inspection was instituted. This inspection program was
9 carried out faithfully by the Credit Unions Branch of the
10 Department of Insurance, but by 1955 the credit unions
11 chartered in Ontario had become too numerous for the admini-
12 strative body to handle and control effectively with
13 existing staff.

14 P65 In January 1956 the then Attorney-General of
15 Ontario met with the Board of this League regarding ade-
16 quate supervision and audit of credit unions in the
17 province. As a consequence of this meeting, this League
18 presented a brief to the Attorney-General in October 1956,
19 which resulted in legislation giving power to the League
20 to examine the affairs of any member credit union. Section
21 53 (7) of The Credit Unions Act 1961 reads as follows:

22 "Any competent person authorized by a league
23 incorporated under this section may examine
24 into the affairs of any credit union that is
25 a member of the league and for such purpose
26 he shall be given access to all books,
27 records and other documents of the credit
28 union and he may make whatever inquiries are
29 necessary to ascertain its true condition
30 and its ability to provide for the payment of



1 its liabilities as they become due, and the
2 officers and employees of the credit union
3 shall facilitate him in his examination and
4 inquiry."

5 P66 In addition, at the League's 17th Annual Meeting
6 in March 1957, member dues were raised from 50 cents a year
7 to \$1.00 a year, to finance a greatly expanded examination
8 program. This program of supervision went into effect in
9 April 1958, and has grown until at the end of 1962, twenty-
10 two League employees in ten areas throughout the Province,
11 under the direction of a Public Accountant, are engaged in
12 examining League member credit unions. In 1962 this League
13 made thorough examinations of 685 credit unions.

14 P67 The Department of Insurance also has ten inspec-
15 tors engaged in similar supervisory and inspection work.

16 P68 If the credit unions in this province were not
17 largely policing themselves, through their League, the
18 government administering body would have to be considerably
19 larger than it is in order to supervise the credit unions
20 adequately. This would involve the expenditure of consi-
21 derably more of the taxpayers' money. The credit unions,
22 therefore, through their members' dues, are paying
23 indirectly for their own supervision, and so reducing the
24 cost of government supervision paid for through taxes.

25 P69 (e) Tax revenue potential

26 It is the contention of this League that if
27 credit unions were made subject to income tax, the tax
28 revenue potential would be negligible, for the following
29 reasons:

30 (i) Credit unions would reduce interest



1 rates on loans to members rather than make
2 rebates after the fiscal year end, thus
3 reducing the net earnings considerably. In
4 1961, the average rebate paid by Ontario
5 credit unions was approximately 16%.

6 (ii) The tendency might well be for credit
7 unions to encourage deposit money from their
8 members, at a fixed interest rate, which
9 interest would be a charge against income,
10 thus reducing the net earnings further, and
11 leaving a smaller amount of share money
12 eligible for dividends payable out of net
13 earnings.

14 (iii) Credit unions might well consider
15 paying those voluntary workers who are
16 currently serving their credit unions without
17 remuneration, and increasing the remuneration
18 of those who are currently receiving token
19 honoraria for their services.

20 (iv) Those credit unions which generally
21 vote up to 5% of their net earnings (after
22 making provision for the guarantee fund) to
23 be set aside for educational purposes, in
24 accordance with Section 28(2) of The Credit
25 Unions Act, 1961 (see para. 31 above) no
26 doubt would instead treat payments for educa-
27 tional purposes as expenses to be charged
28 against income, reducing net earnings still
29 further.

30 (v) The Report of the Royal Commission on



1 Co-operatives (1945) pages 52 and 53 states in
2 part:

3 "Credit unions return to their members
4 a very high proportion of their surplus
5 earnings. In some cases, however, they
6 are retaining amounts which appear to be
7 larger than are required for reserves
8 against bad loans and losses on the basis
9 of past experience. If they were to be
10 taxed by the methods we have recommended
11 for co-operative associations, additions
12 to these excess reserves would be made
13 subject to tax. However, the individual
14 amounts to be assessed would, in many
15 cases, be very small. Moreover, we
16 consider that it is not desirable to
17 discourage the accumulation of reserves
18 to protect the savings of members who,
19 for the most part, receive small or very
20 moderate incomes."

21 In this connection we point out that the total
22 Guarantee Funds at the end of 1961 (see para.
23 28) amounted to \$11,530,095 or 5.2% of loans
24 outstanding. At the same time delinquent loans
25 recorded by credit unions were approximately
26 \$11,000,000, or 5% of loans outstanding. Of
27 this \$11,000,000 statistics produced by the
28 Ontario Department of Insurance for 1961 show
29 loans delinquent for six months or more total-
30 ling \$2,345,542 or 1.1% of loans outstanding.



1 In addition, loans totalling \$574,261 were
2 reported as having been written off during
3 the year.

4 The Guarantee Fund reserve does not appear
5 to be unreasonably excessive compared with
6 bad debt provisions made by other corporations.
7 However, if credit unions were subject to
8 income tax, The Credit Unions Act would
9 undoubtedly need amendment, as there would
10 be very small net earnings on which to base
11 the 20% transfer to Guarantee Fund currently
12 required under the Act. Credit unions would
13 need rather to set up provisions for bad
14 debts in a similar fashion to other corpora-
15 tions.

16 (vi) In view of the above, it would appear
17 that the administrative costs involved in
18 collecting income tax might well exceed the
19 amounts collected.

20 (vii) This League feels that the following
21 quotation from page 52 of the Report of the
22 Royal Commission on Co-operatives (1945) is
23 still relevant in 1963:

24 "We are satisfied that credit unions
25 perform a highly useful function in
26 assisting people who are unable to take
27 effective advantage of savings and loan
28 facilities provided by other lending
29 institutions. We are also satisfied
30 that credit unions are not displacing



1 any other type of business enterprise,
2 except to provide an alternative source
3 of loans in a field where individual
4 money lenders or lending institutions do
5 not provide similar credit facilities at
6 comparable net rates. It is clear, there-
7 fore, that unions provide a useful suppl-
8 ment to other lending institutions and
9 that the continued development of credit
10 unions is desirable from the standpoint
11 of the public interest."

12
13 VIII ARGUMENTS FOR TAXING CREDIT UNIONS ANSWERED

14 P70 The Ontario Credit Union League wishes to take
15 this opportunity to answer certain statements made by The
16 Equitable Income Tax Foundation in their Submission to the
17 Royal Commission on Banking and Finance, dated September
18 28th, 1962, which statements were made to support its
19 contention that credit unions should be taxed.

20 P71 (A) Page 3 of the above-mentioned submission, para-
21 graph 2 reads "It is our belief that in the taxation of
22 Co-operatives as compared to the taxation of ordinary
23 businesses, there exists an extreme inequity. This treat-
24 ment has induced an unnatural rate of growth in Co-opera-
25 tives and Credit Unions....."

26 We contend that the growth of the credit union
27 movement in Ontario (we speak only for this province in
28 our Submission) has not been unnatural, but natural, and
29 due mainly to the following circumstances:

30 (1) Credit unions are member-owned and



operated.

(ii) Membership is based on a specific associational bond.

(iii) The members' money is working for them only and not for anyone outside the membership.

(iv) The credit union philosophy of self-help and service to one's fellows, which appeals to the ordinary individual.

(v) The reasonable return on savings, and low-cost loans.

(vi) The excellent insurance provided on savings and loans at no extra cost.

(vii) The strength of a movement largely united in its League.

P72 (B) Page 4 of the Submission, paragraph ii) reads in part "...Credit Unions have been able to use a large part of their untaxed profits for expansion purposes, and have in this way had a distinct advantage over their competitors in ordinary business."

Answering this statement, we submit that:

(i) of a credit union's net earnings, at least 20% must be put into a Guarantee Fund as statutory reserve against uncollectable loans and losses, under Section 28 (1) of The Credit Unions Act (see para. 27 above). Some credit unions invest their Guarantee Fund in the League Central, or in Government or other bonds. Other credit unions make it available in loans to members, if the demand is high enough. In the overall picture, as



1 will be seen from the 1961 Government statistics
2 (Appendix 3), total credit union investments
3 far exceed the total guarantee funds. This
4 does not suggest that these reserve funds are
5 being used for expansion.

6 (11) The bulk of the remaining net earnings,
7 as indicated elsewhere in this Submission,
8 are returned to the members by way of dividends
9 and interest rebates. These are generally
10 credited to the members' share accounts, but
11 are still taxable in the hands of the member
12 if he is in a taxable bracket. The member is
13 free to draw these credits out of the credit
14 union if he so wishes, as they were only
15 credited to his account for convenience,
16 rather than being paid out in cash. These
17 dividends and rebates are for the most part
18 left in the members' accounts by their own
19 choice, and are of course available for
20 further use, either for lending, investing
21 or for increased liquidity.

22 P73 (C) Page 28 of the Submission, paragraph 3 reads in
23 part: "Credit Unions also show a profit on that part of
24 their funds deposited by members which is invested in
25 securities, loaned to trading Co-operatives, or otherwise
26 placed on the money market."

27 As far as the member credit unions of this League
28 are concerned, League statistics (Appendix 4) indicate that
29 99.6% of members' shares and deposits were on loan to
30 members. Of the 8.2% of total assets that were invested,



1 3.3% was invested with our own League Central either as
2 3½% deposits, or as shares on which 4% dividend has been
3 paid for some years. As the average dividend paid by
4 Ontario Credit Unions for 1961 was more than 4%, no
5 profit was being made on these invested funds. 2.5% of
6 the investments were in Government or Government guaranteed
7 Bonds, and it is doubtful if the returns on these bonds
8 was at a higher rate than the average dividend. 1.6% of
9 the investments were with the Ontario Co-operative Credit
10 Society at either 3½% on deposit accounts or in shares on
11 which a dividend of 5% was paid.

12 Generally speaking, credit unions are not seeking
13 the highest returns on their surplus money, but seek a
14 reasonable return either from their League, the Ontario
15 Co-operative Credit Society or in Government or Government-
16 guaranteed Bonds.

17 P74 (D) Page 30 of the Submission, paragraph 1, reads in
18 part: "It seems clear that much of the growth of Credit
19 Unions can be directly attributed to their freedom from
20 taxation."

21 We contend that there is no clear evidence for
22 this statement, and we have answered it together with a
23 similar allegation in para. 71 above.

24 P75 (E) Page 30 of the Submission, paragraph 2, reads:
25 "The extraordinary growth and prosperity which Credit
26 Unions have enjoyed in the last twenty years and the unfair
27 nature of the competition they provide for their fully
28 taxed commercial competitors is sufficient reason for a
29 reappraisal of the taxation policy to be adopted towards
30 this type of financial business."



1 We submit that the phrase "unfair nature of the
2 competition" is not relevant. As indicated in
3 para. 39 above, a credit union does not exist
4 to compete with other financial organizations,
5 and has no need to engage in any kind of compe-
6 titive activity, because its scope of operation
7 is limited to its own members.

8 If credit unions were to be taxed as the founda-
9 tion wishes, then credit union interest rates
10 would certainly be lowered, and credit unions
11 then would be placed in a competitive position
12 from the point of view of other financial
13 organizations.

14 P76 (F) Page 4 of the Synopsis of the Submission, para-
15 graph 2 reads in part: "their (Credit Unions) continued
16 growth works to the detriment of their fully taxed compe-
17 titors----banks, savings and loan, trust and finance
18 companies."

19 No concrete evidence was produced to substantiate
20 this claim. Not only do we deny the statement, but claim
21 that the reverse is more probably true. It appears that
22 the chartered banks have only become seriously interested
23 in the small loans field since they realized how success-
24 fully the credit unions were handling such loans at rates
25 comparable to those the banks would charge. Trust compa-
26 nies do not deal in personal loans, which type represents
27 the largest proportion of credit union loans. We do not
28 have any evidence that finance companies are not growing
29 along with all other financial organizations.

30 We feel very strongly that credit unions, whilst



1 not actively competing with other financial organizations,
2 have acted and still do act as bulwarks against usurious
3 (i.e. exorbitant) rates of interest, and as such are not
4 growing to the detriment of our "competitors," but along
5 with them for the good of our society.

6 P77 (G) Page 4 of the Synopsis of the Submission, last
7 paragraph reads: "It is further recommended that credit
8 unions be taxed like ordinary companies."

9 Page 32 of the Submission, last paragraph reads:
10 "That the special exemption accorded to Credit Unions be
11 discontinued and that they be taxed on the same basis as
12 ordinary financial concerns."

13 Our only comment on the use of the phrases
14 "ordinary companies" and "ordinary financial concerns" is
15 that credit unions are not ordinary companies or ordinary
16 financial concerns, but as is made clear in other parts
17 of our Submission are unique organizations which cannot
18 deal with the public at large, designed to serve a specific
19 need of their members and purpose in our society, not for
20 profit, not for charity, but for service.

21
22 IX CONCLUSION

23 P78 In view of all the foregoing, the Ontario Credit
24 Union League Limited humbly suggests to the Commission that
25 it recommends to the Government that credit unions, and
26 their Leagues continue as they are at present, not subject
27 to income tax.

28

29

30



ONTARIO CREDIT UNION LEAGUE LIMITED

APPENDIX "A"

BE IT ENACTED as a by-law of Ontario Credit Union League Limited that the general by-laws enacted on the 29th day of July, 1942, as amended from time to time, be and the same are hereby repealed and the following substituted therefor:

ARTICLE I

1. The registered office and chief place of business of the League shall be located in the Township of North York in the County of York, and Province of Ontario.

ARTICLE II

MEMBERSHIP

1. Membership in the League shall be limited to Credit Unions duly incorporated under the laws of the Province of Ontario.

2. Application for membership shall be made in writing upon and according to the form prescribed by the Board of Directors and shall be forwarded with the prescribed entrance fee to the Secretary and presented by him at a regular or special meeting of such Board for its approval.

3. If the Board of Directors gives its approval to the application of any Credit Union for membership in the League, such Credit Union shall thereupon become a member.

4. Every member Credit Union which fails, without being excused by the Board of Directors, to pay the annual dues assessed, as hereinafter provided, within six months after the due date, may be expelled by the Board of Directors until a satisfactory arrangement for payment of such



1 arrears has been made.

2 ARTICLE III

3 MEETING OF MEMBERS

4 1. The annual meeting of the League shall be held
5 at such time and place before the 31st day of March in
6 each year as the Board of Directors or the preceding
7 annual meeting may, by resolution, determine.

8 2. Notice of the annual meeting of the League shall
9 be given by mailing the same by prepaid first class post
10 at least 30 days prior to the date of the meeting to each
11 member of the League at its address as shown on the record
12 of members, and to the auditor.

13 3. When the notice is received generally by the
14 members of the League, the accidental omission to give
15 notice to any member thereof or the non-receipt of the
16 notice by any member thereof shall not invalidate any
17 resolution passed or any proceedings taken at such meeting.

18 4. Each member shall be entitled to appoint one
19 voting delegate who is a member of a Credit Union which is
20 a member of the League, to attend any meeting of the League
21 and vote on behalf of the Credit Union. It may also
22 appoint an alternate delegate who is a member of a Credit
23 Union which is a member of the League to act in the absence
24 of the delegate. Such delegate and alternate delegate may
25 be appointed or elected by each member Credit Union as its
26 by-laws or resolutions may determine and the secretary of
27 the Credit Union shall certify to the secretary of the
28 League, at least 15 days before the date set for the
29 annual meeting, the names and addresses of the delegate
30 and alternate delegate chosen.



1 5. At annual and special meetings of the League
2 representatives of 50 members shall constitute a quorum
3 and if no quorum is present the presiding officer of the
4 meeting shall adjourn the meeting to a date not less than
5 seven or more than fifteen days thereafter and the deci-
6 sion of the adjourned meeting shall be binding upon the
7 League regardless of the number of members represented,
8 provided that notice of the adjourned meeting shall be
9 given by the secretary in the manner herein provided at
10 least five days previous to the date of the adjourned
11 meeting.

12 6. A special meeting of the League may be called
13 by a two-thirds vote of the Board of Directors, or the
14 president shall, upon the written request of not less
15 than twenty percent of the members, call a special meeting
16 of the League.

17 7. Notice of any such special general meeting shall
18 be mailed by prepaid first class post to each member at
19 its address as shown on the record of members, and to the
20 auditor, at least 15 days before the date of the meeting
21 and shall state the purpose of the meeting. At a special
22 meeting of the League only the business stated in the
23 notice calling such meeting may be transacted.

24 8. No delegate, and, except as herein provided, no
25 member shall vote by proxy at any meeting of members.

26 9. Each delegate shall be entitled to one vote only
27 regardless of the number of Credit Unions he represents.

28 10. Elections shall be by ballot. Any ballot which
29 contains the names of more or less than the number required
30 to be elected shall be void. In all other respects



1 elections shall be conducted according to rules from time
2 to time adopted by the annual meeting.

3 11. The Board of Directors or the annual meeting may
4 from time to time appoint a Resolutions Committee and may
5 require resolutions to be submitted to the annual meeting
6 to be forwarded in writing to the League Office for
7 submission to the Resolutions Committee at such time
8 prior to the annual meeting as it may require. The Board
9 or the annual meeting may from time to time give the Reso-
10 lutions Committee power to reword any resolutions submitted
11 to it, to consolidate resolutions dealing with the same
12 subject matter, and to recommend their adoption or other-
13 wise by the annual meeting.

14 12. (1) Subject to subsection 2 hereof, the order of
15 business at annual meetings of the League shall be as
16 follows:

17 (a) Opening ceremonies, including the address
18 of the president.

19 (b) Roll call or registration of members,
20 including report of Credentials Committee,
21 if any.

22 (c) Reading of minutes of last meeting.

23 (d) Report of the Board of Directors.

24 (e) Report of the Comptroller.

25 (f) Report of the League Central.

26 (g) Report of the Auditor.

27 (h) Budget.

28 (i) Report of Directors of Credit Union
29 National Association, and of any committees
30 appointed by members.



(j) Unfinished Business.

(k) Report of the Resolutions Committee.

(1) New Business including elections of directors, appointment of auditor, and election of directors of Credit Union National Association.

(m) Adjournment.

(2) Any annual meeting may vote to change the order of business.

13. At any annual meeting, by resolution on recommendation of the Board of Directors, the League may fix the basis for the calculation of dues to be paid by members, the amount thereof, and the time and manner of payment, and at any subsequent annual meeting may upon the recommendation of the Board of Directors alter or vary any of such matters.

ARTICLE IV

BOARD OF DIRECTORS

1. The Board of Directors shall consist of eighteen persons who shall be elected by ballot from the credit union membership within the League. The members of the existing Board of Directors shall hold office for the terms for which they have been elected.

2. At every annual meeting of the League an election shall be held from the credit union membership within the League to fill the place of members of the said Board whose term of office has expired and the members so elected shall hold office for three years, or until their successors in office are elected.

3. Whenever any vacancy occurs on the Board of



1 Directors the remaining members thereof may, but need not,
2 appoint from the credit union membership within the League
3 a member to the said Board to hold office until the next
4 annual meeting.

5 4. Regular meetings of the Board of Directors shall
6 be held immediately prior to and following the annual general
7 meeting and at two other times during the year preferably
8 in the months of January and August; provided other meetings
9 may be called by the President or Secretary and shall be
10 called upon the petition in writing of three members thereof.
11 The secretary shall send written notice of each meeting of
12 the Board of Directors to each director at least seven days
13 before the meeting, which notice shall contain the place,
14 date and time of the meeting.

15 5. The Board of Directors shall have full power and
16 authority to manage the affairs of the League and they may
17 exercise all such powers and do all such acts and things as
18 may be exercised or done by the League and are not by the
19 by-laws of the League or by statute or by resolution of the
20 members in general meeting expressly directed or required
21 to be done by the League at general meetings of the members;
22 but no resolution made or passed by the League in general
23 meeting shall invalidate any prior act of the directors
24 which would have been valid if such resolution had not been
25 made or passed.

26 6. During the absence or disability of any officer,
27 the Board of Directors may appoint another person from the
28 credit union membership within the League to act temporarily
29 in his stead.
30



ARTICLE V

OFFICERS AND THEIR DUTIES

1. The Board of Directors shall at its first meeting after every annual meeting elect from among themselves a President, a Vice-President and a Comptroller who shall hold office for one year or until their successors are elected. They shall appoint from time to time as may from time to time be considered necessary for the efficient management of the League. The general manager shall not be a member of the Board of Directors but he shall be a member of a credit union which is a member of the League.

2. It shall be the duty of the President to preside at meetings of the members of the League and meetings of the Board of Directors and he shall perform such other duties as are necessary to the proper conduct of his office as President. He shall be ex officio a member of all standing and special committees.

3. It shall be the duty of the Vice-President to perform the duties of the President in the absence or disability of the President.

4. It shall be the duty of the Comptroller to prepare a budget for submission to each annual meeting showing estimated receipts and expenditures for the ensuing year; and to supervise the collection and expenditure of all League monies.

5. The General Manager shall perform all the duties ordinarily performed by a secretary-treasurer and shall be secretary of all standing and special committees and more particularly it shall be his duty to:

(a) Attend all meetings of the Board of Directors



- 1 and Executive Committee.
- 2 (b) Keep a correct record of all meetings of
- 3 members of the League and Board of Directors.
- 4 (c) Give notice of all meetings of members
- 5 in the manner prescribed by these by-laws.
- 6 (d) Have charge of the League office as
- 7 executive officer.
- 8 (e) Have the custody of the cash, the securi-
- 9 ties, books and accounts and other valuable
- 10 papers of the League; and such books and
- 11 accounts shall be open at all times to the
- 12 Board of Directors and the auditor or auditors
- 13 employed annually by the League.
- 14 (f) Prepare a balance sheet showing the
- 15 condition of the League within seven days
- 16 after the close of each quarter, which state-
- 17 ment shall be posted in a conspicuous place
- 18 in the office of the League where it shall
- 19 remain until replaced by the statement of the
- 20 succeeding quarter.
- 21 (g) Deposit all funds in his possession within
- 22 48 hours after receiving the same in the bank
- 23 prescribed by the Board of Directors; and
- 24 (h) Perform such other duties as the Board
- 25 of Directors may designate.
- 26 6. The General Manager and other employees deter-
- 27 mined by the Board of Directors, shall be bonded in such
- 28 amount and in such company as the Board of Directors may
- 29 determine.
- 30 7. The President, Vice-President, Comptroller, and



1 at least two other directors as may be appointed by resolu-
2 tion of the Board of Directors, shall constitute an Execu-
3 tive Committee with the power to carry on the general busi-
4 ness of the League between meetings of the Board of Direc-
5 tors.

6 8. A majority shall constitute a quorum at any
7 meeting of the Executive Committee.

8 ARTICLE VI

9 AUDITOR

10 1. The members of the League at each annual meeting
11 shall appoint an auditor or auditors in lieu of a Super-
12 visory Committee.

13 2. The auditor or auditors so appointed shall hold
14 office until the next annual meeting, and if an appointment
15 is not then made the auditor or auditors in office shall
16 continue in office until a successor is appointed.

17 3. The remuneration of the auditor or auditors
18 shall be fixed by the Directors.

19 4. The auditor or auditors shall perform all the
20 duties of the Supervisory Committee set forth in subsection
21 7 and 10 of section 32 of the Credit Unions Act.

22 5. The auditor or auditors shall be given notice of
23 any annual or special general meeting of the members in the
24 same manner in which members of the League are given notice
25 and shall have the right to attend any annual meeting of
26 the members or any special meeting of the members at which
27 any financial statement of the League is to be discussed,
28 for the purpose of explaining the statement or any part
29 thereof.

30 6. The remaining duties and powers of the Supervisory



1 Committee shall be performed by the Board of Directors.
2 7. It shall not be necessary to elect a Supervisory
3 Committee as required by subsection 1 of section 32 of the
4 Credit Unions Act.

5 ARTICLE VII

6 LEAGUE CENTRAL

7 1. The League shall continue to operate the Depart-
8 ment formerly called the Central Credit Department which
9 shall hereafter be known as the League Central for the
10 purpose of receiving money from its member Credit Unions
11 either as payment on shares or as deposits, and making
12 loans to Credit Unions which are members of the League.
13 The operations of the League Central so far as possible
14 shall be kept separate and distinct from the other opera-
15 tions of the League, and all payments on account of shares
16 and all deposits shall be kept in a bank account separate
17 and distinct from other monies of the League. At each
18 regular meeting of the League and of the Board of Directors,
19 the General Manager shall submit a written report of the
20 operations of the League Central, including a Balance
21 Sheet and a Profit and Loss Statement for the preceding
22 period.

23 2. The Board of Directors shall appoint from time to
24 time one or more employees of the League, who shall be
25 known as credit officers to perform all the duties of the
26 Credit Committee set forth in the Credit Unions Act. It
27 shall not be necessary to elect a Credit Committee as
28 required by subsection 1, of section 31 of the Credit
29 Unions Act.

30 3. The value of each share of the League shall be



1 \$10.00 and payments for shares shall be made when
2 subscribed for.

3 4. Money paid in as payment for shares may be with-
4 drawn at any time, provided that a member may be required
5 to give 60 days notice of its intention to withdraw any
6 monies paid in on shares.

7 5. A member Credit Union may deposit money with the
8 League in sums of not less than \$10.00 at any one time.

9 6. Deposits may be withdrawn by a member Credit
10 Union at any time, provided that a member Credit Union may
11 be required to give 30 days' notice of its intention to
12 withdraw any such monies.

13 7. Interest may be paid on deposits as determined
14 by a resolution of the Board of Directors.

15 8. Applications for loans shall be made in writing
16 upon and according to the form prescribed by the Board of
17 Directors.

18 9. No loan shall be made unless application therefor
19 has been approved by a credit officer. The application
20 and the approval or other report thereon shall be filed as
21 a permanent record of the League.

22 10. The rate of interest on loans shall be fixed
23 from time to time by the Board of Directors, provided that
24 such rate, including all charges and penalties, shall not
25 exceed one per centum per month.

26 11. A member Credit Union may repay its loan or any
27 part thereof at any time before the due date.

28 ARTICLE VIII

29 CHAPTERS

30 1. The Board of Directors may, as the need develops,



1 organize local chapters of the League for the purpose of
2 promoting cooperation among credit unions within the
3 chapter districts, organizing new credit unions, and pro-
4 moting League membership.

5 2. Each chapter shall be composed of the members
6 of the League in the district, and the limits of the
7 district shall be determined by the Board of Directors.

8 3. The Board of Directors may, out of League funds,
9 assist in the financing of chapter activities upon what-
10 ever basis the Board deems advisable, but no chapter shall
11 without the express written authority of the Board of
12 Directors, have authority to incur any liability on the
13 part of the League.

14 ARTICLE IX

15 EXPULSION AND WITHDRAWAL

16 1. Except as provided in Article II, Section 4, the
17 League may, upon the recommendation of the Board of
18 Directors, at any annual or special meeting called for
19 such purpose, expel any member thereof, provided such
20 member shall be given notice of the intended expulsion and
21 an opportunity of appearing before the meeting for a
22 hearing.

23 2. Subject to the Act and the By-Laws of the League
24 any member thereof may, upon application to the Board of
25 Directors withdraw from the League.

26 3. The withdrawal or expulsion of any member of the
27 League shall not relieve such member of his liabilities,
28 if any, to the League.

29 4. The amount of money paid in on shares or deposits
30 by any member which has withdrawn or has been expelled from



1 the League shall, after deducting the amounts, if any, due
2 by such member to the League, be paid to such member in the
3 order of withdrawals and expulsions, provided such payment
4 shall not be made until funds are available.

5 ARTICLE X

6 VOLUNTARY DISSOLUTION

7 1. The League may by resolution of three-fourths of
8 its members dissolve.

9 ARTICLE XI

10 GENERAL

11 1. The fiscal year of the League shall end on the
12 31st day of December in each year.

13 2. The seal, an impression whereof is stamped on the
14 margin hereof, shall be the seal of the League.

15 3. Contracts, documents, or any instruments in
16 writing which are required to be under seal shall be signed
17 by the President or Vice-President and the Secretary or
18 such other persons as the Board of Directors may by resolu-
19 tion prescribe, together with an impression of the seal of
20 the League.

21 4. When the term of office of any elected officer of
22 the League expires, such officer shall be eligible to be
23 elected to the same office or to any other office in the
24 League.

25 5. The Board of Directors may by resolution for the
26 purpose of carrying out the objects of the League provide
27 for the holding, purchasing or leasing in its own name of
28 land and for the sale, exchange or leasing thereof.

29 6. The Board of Directors may by resolution authorize
30 the payment of any necessary travelling expenses and other



1 expenses incidental thereto in carrying out the undertaking
2 of the League and may authorize the payment of salaries
3 and such other expenses as they deem necessary.

4 7. Funds of the League which are not required for
5 the purpose of the League may be invested in such invest-
6 ments as the Board of Directors may determine.

7 8. Whenever in these by-laws reference is made to
8 the "Act" it shall mean the Credit Unions Act, 1960, and
9 amendments thereto, and "the first meeting" shall mean the
10 first meeting convened pursuant to the Memorandum of
11 Association or the Regulations.

12 ARTICLE XII

13 AMENDMENT OF BY-LAWS

14 1. The Directors of the League may from time to time
15 pass by-laws not contrary to the Certificate of Incorpora-
16 tion or the Act, and from time to time amend or repeal the
17 same, but no such by-law, repeal, or amendment thereof
18 shall take effect until confirmed or approved by a vote of
19 two-thirds of the members represented at a meeting of members
20 called for the purpose of considering the same, nor until it
21 has been approved by the Supervisor of Credit Unions as
22 required by the Act.

23 ARTICLE XIII

24 EFFECTIVE DATE.

25 1. These by-laws shall become effective upon
26 approval by the Supervisor of Credit Unions, and approval
27 by the members of the League at a meeting called for the
28 purpose of considering the same.

29

30



1 ENACTED this 7th day of January, 1961

2 D.R. BELL J.M. HALLINAN
3 President Secretary

4 (Corporate Seal)

5 CERTIFIED to be a true copy of a by-law passed by the
6 directors of Ontario Credit Union League Limited on the
7 7th day of January, 1961, and confirmed by two-thirds of
8 the members represented at the annual meeting of Ontario
9 Credit Union League Limited on the third day of March, 1961,
10 which meeting was called for the purpose, among others, of
11 approving the said by-law.
12

13 D.R. BELL J.M. HALLINAN
14 President Secretary

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BY-LAWS

BE IT ENACTED BY.....
.....Credit Union
Limited, as by-laws thereof as follows:-

ARTICLE 1
REGISTERED OFFICE

1. The registered office of the credit union shall
be situated within.....in the County
of.....Province of Ontario.

ARTICLE II
MEMBERSHIP

1. Membership in the credit union shall be limited
to:

2. Application for membership shall be made in
writing and shall be presented to a meeting of the Board
of Directors for its approval.

3. The Board of Directors may give its approval to
the application of any person qualified for membership in
the credit union and a person whose application has been
so approved shall not become a member until he has quali-
fied by paying the entrance fee ofcents and
has subscribed for one or more shares of the credit union
and has paid at least the first instalment thereon.

4. Subject to the provisions of section 25 of the
Act a person under the age of twenty-one years may be



1 admitted as a member of the credit union in the same
2 manner as persons over the age of twenty-one years may
3 be admitted.

4 5. Notwithstanding the provisions of Section 1 of
5 Article XI every member of the Credit Union who ceases to
6 have the qualifications for membership in the credit
7 union set out in Section 1 of Article 11 shall withdraw
8 from the credit union if requested by the Board of
9 Directors and if he fails to do so he may be expelled by
10 the Board of Directors.

11 6. Notwithstanding the provisions of Section 1 of
12 Article XI where a person has been admitted as a member
13 and has paid the entrance fee but has failed to pay in
14 full for at least one share and for six months has failed
15 to pay any instalment thereon, he may at the discretion of
16 the Board of Directors and after notice in writing by post
17 or otherwise be struck off the list of members of the credit
18 union and any moneys paid to the credit union as part
19 payment for a share or shares plus any money received on
20 deposit shall be returned to such member.

21 ARTICLE 111
22 CAPITAL AND LIABILITY

23 1. The value of each share of the credit union shall
24 be \$5.00.

25 2. Payment for shares shall be made when subscribed
26 for or in instalments ofon each share
27 subscribed.

28 3. Money paid in as payment for shares or instalment
29 of shares may be withdrawn on any day when payment for
30 shares is received provided that the Board of Directors may



1 require a member at any time to give sixty days' notice
2 of his intention to withdraw any moneys paid in as payment
3 for any share or shares.

4 ARTICLE 1V
5 DEPOSITS

6 1. A member may deposit money with the credit union
7 in sums of not less thanat any one time
8 during the times prescribed by the Board of Directors for
9 making deposits.

10 2. Deposits may be withdrawn by a member on any
11 day on which the office of the credit union is open for
12 business provided that the Board of Directors may at any
13 time require such member to give thirty days' notice of
14 his intention to make any withdrawal.

15 3. Interest may be paid on deposits which have been
16 on deposit more than one month preceding the interest day
17 and on the accumulated interest either monthly, quarterly,
18 half-yearly and the interest period and the days of payment
19 thereof shall be determined by the Board of Directors.

20 ARTICLE V
21 LOANS

22 1. Application for loans shall be made in writing
23 upon and according to a form which shall be prescribed by
24 the Credit Committee and approved by the Board of
25 Directors.

26 2. The loan application and the approval or other
27 report thereon shall be filed as a permanent record of the
28 credit union.

29 3. (a) The total amount on loan to any member at any
30 time shall not exceed \$200.00 unless security
therefor has been given.



1 (b) The total amount on loan to any member at
2 any time shall not exceed \$1,000.00 in excess
3 of the member's savings, or 5% of the credit
4 union's capital, deposits and surplus in excess
5 of the member's savings, whichever is the
6 greater.

7 (c) No loan shall be for more than \$3,000.00
8 in excess of the member's savings unless secured
9 by a first mortgage of real estate and in no
10 case shall the total amount on loan to any member
11 at any time exceed \$10,000.00.

12 (d) Within the meaning of this section a chattel
13 mortgage, an assignment of wages or of other
14 moneys receivable, an assignment of shares of
15 the credit union, or the endorsement of a
16 promissory note may be deemed security, provided
17 that the filing of an executed assignment of
18 wages with an employer shall be at the discretion
19 of the Board of Directors.

20 4. The rate of interest on loans shall be fixed
21 from time to time by the Board of Directors,
22 provided that such rate including all charges
23 and penalties shall not exceed one per centum
24 per month.

25 5. A borrower may repay his loan or any part thereof
26 on any day the office of the credit union is
27 open for business.
28
29
30



ARTICLE VI

MEETINGS OF MEMBERS

1. The annual meeting of the credit union shall be held within months after the end of the fiscal year in the.....of..... in the county ofat such date, place and time as the Board of Directors may, by resolution, determine.

2. Notice of the annual meeting and of every special meeting of the credit union shall be given by the Secretary who shall at least seven days prior to the date of every such meeting post a notice of the meeting in the registered office of the credit union and mail a notice thereof to each member of the credit union at the address of such member in the registered list of members and it shall not be necessary to register such notice or to advertise the same in any newspaper.

In lieu of mailing such notice it may be personally delivered to the member.

3. When notice is received generally by the members of the credit union the accidental omission to give notice to any member thereof or the non-receipt of the notice by any member thereof shall not invalidate any resolution passed or any proceedings taken at each meeting.

4. No member shall have more than one vote at any meeting of the credit union regardless of the number of accounts in his name and voting by proxy shall be allowed only when shares are held by an agricultural association, a municipal body, a school board or other corporation.



1 5. At the annual and special meetings
2 members shall constitute a quorum and if no quorum is
3 present the presiding officer of the meeting shall
4 adjourn the meeting to a date not less than seven or more
5 than fifteen days thereafter and the decision of the
6 adjourned meeting shall be binding upon the credit union
7 regardless of the number of members present provided that
8 notice of the adjourned meeting shall be given by the
9 secretary in the manner herein provided at least five days
10 previous to the date of the adjourned meeting.

11 6. A special meeting of the credit union may be
12 called by the Board of Directors or by the Supervisory
13 Committee and the Board of Directors shall upon the
14 written request of one-tenth of the members and if the
15 credit union has more than one thousand members upon the
16 written request of one hundred or more members call a
17 special meeting of the credit union.

18 7. At a special meeting of the credit union only
19 the business stated in the notice calling such meeting may
20 be transacted.

21 8. (1) The Board of Directors may appoint a
22 nominating committee of three members who shall nominate
23 one member for each vacancy for which an election is to be
24 held.

25 (2) When a nominating committee has been so
26 appointed the Chairman at the annual meeting shall place
27 the names of the persons nominated for the vacancies
28 before the meeting and shall then call for other nominations
29 for each vacancy.
30



1 9. The order of business of meetings of the credit
2 union shall be as follows:

- 3 (a) Roll call or registration of members;
- 4 (b) Reading of the minutes of last meeting;
- 5 (c) Report of the Board of Directors;
- 6 (d) Report of the Treasurer;
- 7 (e) Report of the Credit Committee;
- 8 (f) Report of the Supervisory Committee;
- 9 (g) Unfinished business;
- 10 (h) New business, including elections;
- 11 (i) Adjournment.

12 10. Elections shall be by ballot. Any ballot which
13 contains votes for more or less than the number required
14 to be elected shall be void.

15 ARTICLE VII

16 BOARD OF DIRECTORS

17 1. The Board of Directors shall consist of
18 members elected by ballot. The members of the existing
19 Board of Directors shall hold office for the terms for
20 which they have been elected.

21 2. At every annual meeting of the credit union after
22 the first election of the Board of Directors an election
23 shall be held to fill the place of members of the said
24 Board whose term of office has expired and the members so
25 elected shall hold office for years, or
26 until their successors in office are elected or appointed.

27 3. Regular meetings of the Board of Directors shall
28 be held in Ontario.....(monthly preferred)
29 provided other meetings may be called by the President or
30 upon the petition of three members thereof.



1 4. Subject to these by-laws the Board of Directors
2 shall manage the affairs of the credit union and it shall
3 be more particularly their duty to:

4 (a) act upon all applications for membership and
5 the expulsion and withdrawal of members.

6 (b) fix the amount of the bond which shall be
7 required of any officer having the custody
8 of funds.

9 (c) determine, from time to time, interest rates
10 and fix the maximum number of shares which
11 may be held by and the maximum amount which
12 may be deposited by any member of the
13 credit union.

14 (d) recommend to the annual meeting the payment
15 of dividends and when deemed advisable to
16 recommend the partial refunding of moneys
17 received as interest on loans.

18 (e) have charge of investments other than loans
19 to members.

20 (f) recommend amendments to the by-laws.

21 (g) designate the bank, Province of Ontario
22 Savings Office, or Trust Company licensed to
23 carry on business in Ontario in which the
24 funds of the credit union shall be deposited
25 and designate the person or persons who may
26 sign and countersign cheques on behalf of the
27 credit union.



1 (h) employ, fix the compensation and prescribe
2 the duties of such employees as may, in the
3 discretion of the Board of Directors, be
4 necessary.

5 (i) act upon any application of a member for
6 the postponement of any payment or payments on
7 a loan.

8 (j) perform all duties and take all precautions
9 necessary for the interest of the credit union
10 not within the jurisdiction of the general meeting
11 and not inconsistent with the Act, the regula-
12 tions and these by-laws and perform such other
13 duties as the members may from time to time
14 designate.

15 5. During the absence or disability of any
16 officer, the Board of Directors may appoint another member
17 of the credit union to act temporarily in his stead.

18 ARTICLE VIII

19 OFFICERS AND THEIR DUTIES

20
21 1. The Board of Directors shall at their first
22 meeting after the first meeting of the credit union and at
23 their first meeting after every annual meeting of the
24 credit union elect from their own number a President and a
25 Vice-President and shall appoint a Secretary and a
26 Treasurer of the credit union who may but need not be
27 members of the Board of Directors and all such officers
28 shall hold office until their successors are elected or
29 appointed as the case may be provided that the offices of
30 Secretary and Treasurer may be held by the same person.



1 2. It shall be the duty of the President to
2 preside at meetings of the members of the credit union
3 and meetings of the Board of Directors and he shall
4 perform such other duties as are necessary to the proper
5 conduct of his office as President.

6 3. It shall be the duty of the Vice-President
7 to perform the duties of the President in the absence or
8 disability of the President and such other duties as the
9 Directors may designate.

10 4. It shall be the duty of the Secretary to
11 have custody of the books of record of the credit union,
12 including the charter, the seal, minutes, bonding
13 documents, etc., to keep a correct record of all meetings
14 of members of the credit union and of the Board of
15 Directors and he shall give notice of all meetings of
16 members in the manner prescribed by these by-laws and
17 shall perform such other duties as the Board of Directors
18 may designate.

19 5. It shall be the duty of the Treasurer to:
20 (a) be the General Manager of the credit
21 union unless the Board of Directors has by
22 resolution appointed another person to be
23 the Manager, in which case the Treasurer shall
24 carry out such duties as the Board of
25 Directors shall prescribe;
26 (b) have the custody of the cash, the securi-
27 ties, books and accounts of the credit
28 union; which books and accounts shall at all
29 times be open to the inspection of the Board
30 of Directors and Supervisory Committee;



(c) prepare a financial statement showing the condition of the credit union within fifteen days after the close of each month, which statement shall be posted in a conspicuous place in the office of the credit union where it shall remain until replaced by the statement of the succeeding month; and (d) deposit all funds received within forty-eight hours after receiving the same exclusive of Saturdays, Sundays and Bank Holidays in the depositories prescribed by the Board of Directors and all payments or withdrawals of money shall be made in the manner prescribed by the Board of Directors.

6. The Board of Directors may by resolution set up a fund not exceeding \$100.00 and authorize the Treasurer to keep such amount in cash for such purposes as may be designated in the resolution.

ARTICLE IX CREDIT COMMITTEE

1. The Credit Committee shall consist of members elected by ballot. The members of the existing Credit Committee shall hold office for the terms for which they have been elected.

2. At every annual meeting of the credit union after the first election of the Credit Committee an election shall be held to fill the place of members of the said Committee whose term of office has expired and the members



1 so elected shall hold office foryears,
2 or until their successors in office are elected or
3 appointed.

4 3. The Credit Committee shall from among
5 themselves elect a Chairman of such Committee.

6 4. Regular meetings of the Credit Committee
7 shall be heldand other meetings
8 may be called by the Chairman of such Committee or upon
9 the petition of two members thereof.

10 5. No approval of a loan shall be given by the
11 Credit Committee unless a meeting of such Committee
12 unanimously consents to such approval.

13 ARTICLE X

14 SUPERVISORY COMMITTEE

15
16 1. The Supervisory Committee shall consist of
17 three members elected by ballot. The members of the
18 existing Supervisory Committee shall hold office for the
19 terms for which they have been elected.

20 2. At every annual meeting of the credit union
21 after the first election of the Supervisory Committee, an
22 election shall be held to fill the place of members of the
23 said Committee whose term of office has expired and the
24 members so elected shall hold office foryears,
25 or until their successors in office are elected, or
26 appointed.

27 3. The Supervisory Committee shall from among
28 themselves elect a Chairman of such Committee.

29 4. Regular meetings of the Supervisory Committee
30 shall be heldand other meetings



1 may be called by the Chairman of such Committee or upon
2 the petition of two members thereof.

3
4 ARTICLE XI

5 EXPULSION AND WITHDRAWAL

6 1. Except as provided in Sections 5 and 6 of
7 Article 11 the credit union may upon the recommendation of
8 the Board of Directors at any annual or special meeting
9 called for such purpose expel any member thereof provided
10 such member shall be given notice of the intended expulsion
11 and an opportunity of appearing before the meeting for a
12 hearing.

13 2. Subject to the Act and the by-laws of the
14 credit union any member thereof may upon application to
15 the Board of Directors withdraw from the credit union.

16 3. The withdrawal or expulsion of any member
17 of the credit union shall not relieve such member of his
18 liabilities, if any, to the credit union.

19 4. The amount of money paid in on shares or
20 deposits by any member who has withdrawn or has been
21 expelled from the credit union shall, after deducting the
22 amounts, if any, due by such member to the credit union be
23 paid to such member in the order of withdrawals and
24 expulsions provided such payment shall not be made until
25 funds are available.

26 5. When a member withdraws all money to his
27 credit as shares and deposits and has no loan balance owing
28 to the credit union he shall be deemed to have withdrawn
29 from membership in the credit union and his name may be
30 struck off the list of members.



ARTICLE XII

GENERAL

1. The fiscal year of the credit union shall expire on (SEAL)

2. The seal, an impression whereof is stamped on the margin hereof shall be the seal of the credit union.

3. Contracts, documents or any instruments in writing which are required to be under seal shall be signed by the President or Vice-President and the Secretary or such other persons as the Board of Directors may by resolution prescribe together with an impression of the seal of the credit union.

4. When the day fixed for any meeting of the credit union, Board of Directors, Credit Committee or Supervisory Committee, falls upon a holiday such meeting shall be held on the next business day provided that any such meeting may, upon the giving of due notice, be held on a holiday.

5. When the term of office of any officer of the credit union expires, such officer shall be eligible to be elected to the same office or to any other office in the credit union.

6. No payments or expenses of any kind shall be made unless authorized by the Board of Directors.

7. The officers and members of the Board of Directors and of Committees shall hold all transactions of the members of the credit union in strict confidence.

8. Whenever in these by-laws reference is made to "Act" it shall mean the Credit Unions Act, 1960 and the



1 "first meeting" shall mean the first meeting convened
2 pursuant to the Regulations.

3 9. On or before the first day of March in
4 each year during the time the credit union is a member of
5 any Federation, Regionale or League each person eighteen
6 years of age or over who was a member on December 31st of
7 the preceding year shall pay a yearly assessment of one
8 dollar which amount may be deducted by the credit union
9 from the share or deposit account of the member and shall
10 forthwith be paid to the said Federation, Regionale or
11 League to assist in its financing.

12 10. All by-laws previously enacted are revoked
13 upon the coming into force of these by-laws.

14 ARTICLE XIII

15 AMENDMENT OF BY-LAWS

16
17 The Directors of the credit union may from time to time make
18 by-laws not contrary to the Certificate of Incorporation
19 or The Act and from time to time amend, vary or repeal
20 the same provided that no such by-law, repeal, amendment
21 or variation thereof shall take effect until confirmed or
22 approved by a vote of two thirds of the members present at
23 a members' meeting duly called for the purpose of consider-
24 ing the same and has been approved by the Supervisor of
25 Credit Unions pursuant to Section 16 of The Act.

26 ENACTED this.....day of19....

27 Witness the Corporate Seal of the Credit Union.

28

29
Secretary

.....
President

30

(SEAL)



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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CONFIRMED by two-thirds of the members present at
.....meeting of
Limited, duly held atOntario, the
.....day of19
.....
Secretary President



GOVERNMENT STATISTICS

Statistics prepared by the Ontario Department of Insurance,
based on the reports of 1,315 credit unions in Ontario,
for the year 1961, provided the following information:

ASSETS

Cash		\$ 16,320,337
Investments		26,042,246
Loans - Personal	\$184,241,882	
- Mortgage	34,206,229	
- Estate	1,080,850	
- Other	<u>549,252</u>	220,078,213
Lands & Buildings		2,251,139
Other Assets (Equipment, Prepaids etc.)		<u>2,216,520</u>
		<u>\$266,908,455</u>

LIABILITIES AND MEMBERS' EQUITIES

Shares		\$183,583,300
Deposits		47,283,122
Estate Shares and Deposits		1,345,015
Borrowing		9,515,704
Other Liabilities (payables etc.)		1,159,199
Guarantee Fund - a reserve against losses		
on loans to members		9,032,120
Other Funds and Reserves (Educational, Building etc.)		1,261,789
Undivided Earnings (Net earning for year plus balance forward from 1960)		<u>13,728,206</u>
		<u>\$266,908,455</u>



1	<u>INCOME</u>	\$ 21,382,510
2	<u>EXPENSE</u> (including interest on members'	
3	deposits)	9,392,632
4		12,489,878
5		
6	Allocation of net earnings for the year 1961	
7	was as follows:	
8	20% to Guarantee Funds as required by Section	
9	28 (1) of the Credit Unions Act 1961	\$ 2,497,975
10	Returns to members in form of dividends and	
11	interest rebates	8,926,738
12	Additions to other funds and reserves	1,065,165
13		\$12,489,878
14	The amount of \$1,065,165 (above) was used for a number of	
15	purposes such as:	
16	(1) Donations, which are not permitted to be charged as	
17	expense items. Section 4 (2) (c) of The Credit Unions	
18	Act 1961 reads:	
19	"subject to confirmation by its members at	
20	an annual or special general meeting, make	
21	donations and gifts out of its surplus income	
22	or any undivided earnings, other than the	
23	guarantee fund, for the purpose of advancing	
24	the interests of the credit union or of	
25	credit unions generally."	
26	(2) Educational Funds (see para. 31).	
27	(3) Other Funds and Reserves (see paras. 30 & 31).	
28	(4) Honoraria to officers when not paid out as expenses.	
29		
30		



ONTARIO CREDIT UNION LEAGUE

STATISTICS FOR THE YEAR ENDED DECEMBER 1961

(1,236 Credit Unions reporting)

	\$ 0 to 50,000	\$ 50,000 to 150,000	\$ 150,000 to 500,000	\$ 500,000 to 1,000,000	\$ 1,000,000 to 3,000,000	\$ 3,000,000 and over	Overall
Percentage of Gross Income	%	%	%	%	%	%	%
INCOME							
Interest - Personal Loans	95.5	93.9	91.8	90.8	83.7	92.6	90.9
- Mortgage Loans	0.3	1.0	3.0	3.8	9.1	3.0	3.8
Dividends and Interest Income	1.3	2.6	2.8	2.8	4.4	3.2	3.1
Other Income	2.9	2.5	2.4	2.6	2.8	1.2	2.2
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENSE							
Salaries and Honoraria	6.5	7.2	10.7	13.8	12.7	9.0	10.5
Share and Loan Insurance	13.8	13.4	13.0	13.3	12.8	9.4	12.4
Interest on Borrowing	3.4	3.2	3.2	3.0	3.2	1.5	2.8
Interest on Deposits	0.2	0.4	1.0	0.6	4.3	0.4	1.2
Occupancy Costs	0.9	1.2	1.1	1.4	1.8	1.2	1.3
Employee Benefits	-	0.1	0.1	0.3	0.4	0.5	0.3
Annual Meeting	1.5	1.1	0.8	0.6	0.4	0.4	0.7
Education	1.0	0.9	0.8	0.9	0.8	0.4	0.7
Office	4.7	3.2	2.8	2.8	2.3	2.5	3.0
Miscellaneous	7.6	5.6	5.1	3.7	3.2	1.2	4.0
	<u>39.6</u>	<u>35.3</u>	<u>39.0</u>	<u>40.4</u>	<u>42.4</u>	<u>26.5</u>	<u>36.9</u>
NET INCOME	60.4	63.7	61.0	59.6	57.6	73.5	63.1
Salaries and Honoraria as Percentage of Total Expense	16.4	19.9	27.6	34.0	30.3	33.8	28.4



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3 SUBMISSION

4 to the

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7 ROYAL COMMISSION ON TAXATION

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12 PRESENTED BY

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17
18 RETAIL MERCHANTS ASSOCIATION OF CANADA

19 (ONTARIO) INC.

20
21 17 Queen Street East, Toronto 1, Ontario

22
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27
28 TORONTO, ONTARIO

29 May 21, 1963.
30



FOREWORD

The submission of the RETAIL MERCHANTS ASSOCIATION OF CANADA (ONTARIO) INC. is respectfully presented to the Royal Commission on Taxation as the result of the work of a special committee appointed to consider present Income Tax Legislation. The brief has been given unanimous approval by the Board of Directors.

The statistical data has been gathered from various official publications of the Canadian Government including Canada Year Book; selected issues of the Dominion Bureau of Statistics "Retail Trade in Canada," "Wholesale Trade in Canada"; and various publications of the Canada Department of Agriculture "Co-operation in Canada. Reference has also been made to 1962 Taxation Statistics.

This submission will deal extensively with the subject of co-operative taxation and will make various references to the publication "Recent Growth in Canadian Co-operatives" published by the Canadian Tax Foundation. The work of the Foundation is well known to the Commission. Recently the Tax Foundation has very thoroughly examined the whole subject of co-operative taxation and like all of its other studies, the research was objective and impartial. Professor R. Craig McIvor of McMaster University, a well-known economist who owes allegiance to neither faction in the controversy, was engaged to carry out the work. He is the author of two studies published by the Canadian Tax Foundation -- "The Post-War Taxation of Canadian Co-operatives" (1959) and "Recent Growth in Canadian Co-operatives" (1962).



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2

1 We therefore acknowledge with a deep sense of
2 appreciation the importance of these findings to the
3 Retail Trade.

4
5 John J. Borman
6 President
7

8 May, 1963
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SYNOPSIS

1

2 1. This submission is presented on behalf of the
3 Retail Merchants Association of Canada (Ontario) Inc., a
4 voluntary, non-profit organization representative of a
5 large cross-section of the retail industry in Canada.
6 The objects of the Association are the betterment of the
7 retail trade and the promotion of high standards of busi-
8 ness practice.

9 2. Retailing is one of the nation's largest and
10 most important industries comprising 180,000 outlets with
11 total sales amounting to \$17.4 billion in 1962. Single-
12 unit independent stores account for the greatest number of
13 outlets and the highest percentage of total volume,
14 followed by retail chain stores and consumer co-operatives
15 in that order. Favoured tax treatment of this latter
16 group has been a major factor in their rapid growth and
17 expansion from a small starting base.

18 It is estimated that there are 600,000 people
19 employed in retailing and the employment of many others
20 whose jobs are intimately linked to retailing is dependent
21 upon the economic health of the retail industry. The
22 industry contributes heavily to the Federal Treasury at
23 the income tax level apart from its involvement with
24 federal excise and sales taxes.

25 Retailing is a highly competitive industry in
26 which it is elemental that the only form of competition
27 which will best serve the public interest is that form of
28 competition which is fair and equitable to all.

29 3. The Retail Merchants Association supports a
30 taxation policy which would close the inequitable gap



1 between business corporations that are fully taxed and
2 those that are only partially taxed or tax exempt; reduce
3 the rate on corporation income; reduce the rate on indivi-
4 dual income.

5 4. This submission deals with "The Effect of Tax
6 Inequity on the Economy of Canada and on Fully Taxed
7 Competitors." The inequity to which we refer is that
8 which occurs in the taxation of co-operatives as compared
9 with the taxation of ordinary businesses.

10 In seeking equity in co-operative taxation we
11 do not oppose co-operatives or the co-operative idea,
12 nor do we suggest that co-operatives are not observing
13 the provisions of our taxing statutes. Our purpose is
14 merely to advocate equality of taxation and to eliminate
15 competitive inequities.

16 5. In the merchandising field and in various other
17 industries there are two forms of business competing with
18 each other. One of these pays up to 52 per cent of its
19 net profits to the Government. The other, a co-operative
20 corporation, keeps most of its profits and expands on tax-
21 free income. These important tax concessions to co-opera-
22 tives have arisen through the higher income tax rates
23 brought into effect since the outbreak of World War II
24 when the corporation tax rate was 15%. Today it ranges
25 from 21 per cent to 52 per cent. A concession which
26 enables co-operatives to restrict their liability to as
27 low as 5% of their profits and provides a convenient method
28 for the reinvestment of tax-free income is, on the face of
29 it, an extreme form of discrimination which deserves the
30 attention of this commission.



1 6. The problem of co-operative taxation is a subject
2 of much greater importance than it may appear at first
3 glance. The loss of revenue to the Federal Treasury,
4 although substantial, is not the point of major concern
5 compared with the significance of the tax privilege as an
6 impediment to free competition, its effect on the use of
7 the nation's resources and its implications for the future
8 organization of our economy. The problem can only be
9 solved by the removal of the basic taxation inequities
10 which have caused it.

11 7. The basis of tax discrimination in the present
12 legislation is found in Sections 73 (new co-operatives)
13 and 75 (ordinary trading co-operatives).

14 The three-year tax exemption for new co-opera-
15 tives is the most obvious and clear-cut of all co-opera-
16 tive tax advantage. It is an extreme and indefensible form
17 of discrimination which is not granted to other businesses
18 and it should be rescinded. The most significant
19 preferences given co-operatives are those stemming from
20 Section 75 which provide that a corporation, co-operative
21 or otherwise, can, subject to certain restrictions, deduct
22 in computing its income for a taxation year, patronage
23 dividends paid to customers. The section also provides
24 that "payment" of patronage dividends can be achieved in
25 a variety of ways. These methods of "payment" include
26 cash, revolving fund arrangements, the issue of new share
27 capital and various other schemes whereby dividends are
28 declared contemporaneously with the exaction of a loan of
29 a similar total amount from the members.

30 Patronage dividends in the hands of members of



1 consumer co-operatives are tax-exempt. Other patronage
2 dividends whether or not paid in cash are taxable at the
3 customer's individual tax rate if the customer is in a
4 tax-paying bracket.

5 8. The effect of Section '75' is to provide a
6 facility whereby tax-free dividends may be declared but
7 not necessarily paid out in cash according to a formula
8 which is practical in the hands of co-operatives and
9 impractical for the purposes of ordinary business. Investor-
10 owned businesses owe a duty to account for their corpora-
11 tion's profits to their suppliers of risk capital - their
12 shareholders. This duty can only be fulfilled by paying
13 dividends on share capital. On the other hand, by the
14 declaration of patronage dividends, co-operatives discharge
15 their responsibility to their suppliers of risk capital
16 because their customers are also the suppliers of this type
17 of capital. Consequently ordinary corporations are unable
18 to make significant use of Section '75' of the Act.

19 9. Co-operative partisans argue that no discrimina-
20 tion exists because the provisions of Section '75' are
21 available to ordinary corporations as well as to co-opera-
22 tives. The implications of such an argument are clear.
23 If ordinary businesses want a more favourable tax deal,
24 they must reorganize their affairs the co-operative way.
25 This would mean the ultimate withdrawal of investment
26 capital from industry and from Canada. The eventual out-
27 come would be the end of revenue from corporate income
28 taxes. The position is well summed up in the Canadian Tax
29 Foundation publication "Recent Growth in Canadian Co-opera-
30 tives" -



"To point ou, as is frequently done, that ordinary corporations are free to organize as co-operatives is not to deny but to affirm the reality of discrimination as between the two forms of organization.

The essence of this discrimination lies in the fact that whereas Section 75 (1) makes no discrimination in the "quality" or nature of income earned by co-operatives, and by ordinary corporations, it does make a distinction in the taxing of such income, depending upon the particular pattern in which it is distributed."

10. Any proposal that the Government abandon the field of corporate taxation and thereby solve the problem of tax equality ignores the fact the Government would be hard-pressed to find another source of revenue to provide the \$1-1/3 billion derived annually from corporate profits. The problem of equitable taxation must be solved here and now in the context of our existing system.

11. The ability of co-operatives to amass untaxed capital from that portion of dividends declared but retained for expansion and growth intensifies the problem of discrimination for those businesses in direct competition with co-operatives. Published figures of some of the large co-operatives show that on individual annual profits of several millions of dollars they have limited their income tax liability to as little as 5%. Tax-free capital has been the important factor in the growth of co-operatives and accounts for the spectacular gains of consumer



1 co-operatives. (See "Recent Growth in Canadian Co-opera-
2 tives" p. 29 and 33).

3 12. The small amount of tax paid by consumer
4 co-operatives is the only tax paid. The patronage divi-
5 dends they allocate are tax-free in the hands of their
6 recipients.

7 13. Co-operatives are enabled to eliminate most
8 tax liability by the simple expedient of allocating their
9 income to their patrons. This they claim keeps the corpora-
10 tion from having taxable income. For many years successive
11 Canadian governments have ruled that corporations are
12 entities in their own right and as such should be treated
13 as taxable. The Royal Commission on Co-operatives (1945)
14 rejected the claim that co-operatives have no income and
15 the fact that they do have income is recognized by the
16 Income Tax Act itself. Patronage dividends of co-operative
17 corporations represent the distribution of co-operative
18 profits and, as such, should be taxable and exposed to the
19 same treatment as ordinary corporation profits at the
20 corporate level and in the hands of recipients.

21 14. Millions of dollars of earnings are being put to
22 work as tax-free capital for profitable investment in the
23 building of warehouses, retail supermarkets, processing
24 plants and otherwise providing the funds for multi-million
25 dollar enterprises.

26 15. The validity of our position is illustrated by
27 an examination of the financial affairs of Federated
28 Co-operatives Ltd. In 1961 income taxes were estimated at
29 \$135,000, on net savings of \$3,348,000. This is merely a
30 token payment of tax compared to the tax of a private



1 business organization, with similar profits, which would
2 amount to approximately \$1,664,000. In the case of
3 Federated the major portion of the \$1,529,000 tax conces-
4 sion was reinvested for growth -- growth which takes place
5 at the expense of the taxpaying competitor.

6 Through the years Federated has consistently
7 reinvested a major portion of the earnings rather than
8 pay out in the form of patronage dividends. (See details,
9 brief, p. 22 and 23). In this manner for the comparable
10 period 1948 to 1962, equities in Common Shares, Certifi-
11 cates of Indebtedness and reserves increased by
12 \$15,596,000, leaving a balance from aggregate operating
13 savings for the period of \$12,055,000 for income taxes
14 and cash dividends.

15 Reinvestment of co-operative tax-free earnings
16 is a safe and sure way to finance co-operative growth.
17 It employs a technique which is entirely beyond the reach
18 of ordinary business. Federated sales have trebled since
19 1954.

20 16. The competitive disadvantage of the ordinary
21 corporation in competition with a co-operative is obvious.
22 It is not so widely known that a co-operative often has a
23 fantastic tax advantage over an ordinary individual trader
24 as well. An individual engaged in trade cannot amass
25 untaxed capital for the expansion of his business the way
26 co-operatives can. If the individual is taxable he pays
27 tax on every cent of his earnings. If he operates a small
28 incorporated business there is still a substantial
29 difference between the 21-23 per cent rate and the 5 per
30 cent or less which many co-operatives pay.



1 17. When one segment of the distributive industry
2 is granted a discriminatory tax concession all other
3 competing systems of the industry are penalized. It is
4 impossible for a fully-taxed business concern to compete,
5 for very long, with one that is virtually tax-free.

6 18. Present tax legislation, in economic reality,
7 discriminates in favour of co-operative enterprise and
8 fails to achieve the objective of the key recommendation
9 of the Royal Commission on Co-operatives (1945) that
10 co-operatives should be taxed on "the same basis as other
11 persons."

12 19. Mere observation shows that many co-operatives
13 have departed completely from the original 'agency' basis
14 of doing business. They operate for profit in just the
15 same way as joint-stock companies do. This is a particular
16 characteristic in co-operative organizations where the
17 profits earned arise from a great diversity of commercial
18 projects, most of which bear no direct relationship to
19 the purpose for which the organization was founded. The
20 patronage dividend paid to any one member is not dependent
21 upon his individual transactions with the co-operative
22 but upon all his dealings throughout the year. The member
23 is a joint venturer in a corporation business, as is a
24 stockholder in a business corporation. To the extent that
25 trading co-operatives are organized for the gain of their
26 members and earn profits from trading ventures they do
27 have income.

28 20. The 'price adjustment' theory of co-operatives
29 asserts that co-operative business is transacted at cost
30 and that its patronage dividends are simply an adjustment



1 in the prices of the products it sells to or buys from
2 members.

3 This theory fails to take into account that
4 co-operatives are, in actuality, separate as business
5 entities from their patrons; that there is an owner
6 relationship as well as the patron relationship between
7 co-operatives and their members; and that the transactions
8 of successful co-operatives result in a gain or profit;
9 the net margin or the patronage dividend is all or some
10 part of that profit, and it is being distributed or allo-
11 cated to the members as the true owners of the business.
12 In this sense there is no clear-cut difference between
13 patronage dividends in general and the dividends of ordinary
14 corporations.

15 One point of significance is that the gain of a
16 'marketing' co-operative arises from transactions with
17 those to whom it sells the products of its members; the
18 gain of a 'purchasing' co-operative arises from its
19 dealings with those from whom it purchases. But the
20 patronage dividend is not paid to the person or firm from
21 which the gain is derived. It is distributed to its
22 member shareholders just as in the case of ordinary corpora-
23 tions.

24 21. To properly assess the real impact of co-opera-
25 tive tax privilege, consideration should first be given to
26 the total dollar volume of co-operative business ventures
27 which amounted to \$1.470 million, year ending July 31,
28 1961. This volume represents a doubling of the 1947
29 figure. Most pronounced growth has been witnessed in
30 recent years. Between 1957 and 1961 co-operative assets



1 have increased by 28 per cent, marketing sales by 25%
2 and the sale of merchandise and supplies by 38 per cent.
3 The co-operative share of sales of farm products in
4 Canada in 1960 was 33.3 per cent of the total. The more
5 recent development of co-operative merchandising (and
6 wholesaling) organizations indicates that their rate of
7 growth will be even more spectacular than that of marketing
8 co-operatives.

9 In almost all sections of merchandising in
10 which co-operatives compete, their sales have outstripped
11 and in some cases far out-distanced the growth shown by
12 total Canadian sales. This is the situation in the case
13 of co-operative 'Wholesales' where the rise in trade has
14 been tremendous. It is equally true in the case of
15 'consumer' co-operatives where the growth has been
16 striking.

17 Most significant of all, traditional Wholesalers
18 and Retailers are fully-taxed, often paying ten times as
19 much income tax as their tax privileged co-operative
20 competitors.

21 22. One thing is eminently clear. Any form of
22 business activity with annual sales amounting to \$1.5
23 billion is no longer dependent upon special tax privileges
24 to exist and prosper. Co-operatives can grow and prosper
25 under tax equality to the same extent as their business
26 competitors.

27 23. Co-operative plans for the future are ambitious
28 and easily capable of fulfillment with the perpetuation of
29 their tax advantage. Co-operative spokesmen are reported
30 as stating:



"Our contention is that the whole system of food distribution should be owned by producers and consumers co-operatively";

"Co-operatives hope to acquire 25 to 35 per cent of 'the total business of providing goods used by humans' within the next twenty years";

"Within 25 years Producer Co-operatives should double their business to \$4 billion - Consumer Co-operatives should boost their volume to \$2 billion annually - a growth from 2 per cent to 25 per cent as the Co-operatives' share of the nation's total oil business."

24. Any attempt to excuse co-operative tax advantage,

in the light of these statements, seems to be unrealistic.

The fault in our taxation system is a severe one and its adverse effects are constantly growing as long as it is perpetuated. Ordinary businesses are always prepared to compete on the basis of efficiency, price or other normal competitive factors. They cannot compete with what amounts to a Government subsidy.

25. To conclude: Present Income Tax legislation is inequitable and confers tremendous tax concession on co-operative associations to the detriment of their fully taxed competitors. This is a matter of grave concern to the retailers of this country who are faced with the unfair competition of co-operatives created by inequity in our tax laws. This inequitable situation is uneconomic in its relationship to the national welfare; it involves the misallocation of the nation's resources; a loss of revenue to the Federal Treasury and it shifts the tax burden to the



1 shoulders of other taxpayers.

2 No case has been made out to show that co-opera-
3 tives are a superior form of business or more efficient
4 than other businesses. Alternately there is conclusive
5 evidence to show that the extraordinary growth of co-opera-
6 tives is due not to their efficiency but to the financial
7 advantages which are accruing to them under present tax
8 arrangements.

9 Co-operatives have personalities distinct from
10 those of their members; they earn income and allocate
11 their profits to owner-patrons. The return to any one
12 member is not a 'price adjustment'; it represents the
13 result of and the profit on all the co-operative trading
14 ventures. The co-operative member just like an investor
15 in an ordinary company, participates in the trading for-
16 tunes of his co-operative.

17 It is the considered opinion of the Retail
18 Merchants Association that these are all genuine reasons
19 for requiring Co-operative organizations and their members
20 to shoulder their share of the tax load. We therefore
21 recommend as follows:

22 1) The repeal of Section 73 (1) of the Income
23 Tax Act to remove the discriminatory three-year
24 tax exemption for new co-operatives.

25 2) The amendment of Section 75 to disallow
26 the deduction of patronage dividends in the
27 calculation of the net income of either
28 co-operatives or ordinary corporations.

29 3) The provision for tax treatment of patro-
30 nage dividends in the hands of recipients



1 similar to that imposed on corporation divi-
2 dends in the hands of shareholders, granting
3 at the same time, equal tax credits or
4 allowances which may prevail.

5
6 ALL OF WHICH IS RESPECTFULLY SUBMITTED.

7 RETAIL MERCHANTS ASSOCIATION OF CANADA
8 (ONTARIO) INC.

9 JOHN J. GORMAN - PRESIDENT
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SUBMISSION

To The

ROYAL COMMISSION ON TAXATION

Presented By

RETAIL MERCHANTS ASSOCIATION OF CANADA (ONTARIO) INC.

SECTION I

INTRODUCTION

My name is John J. Gorman of Sault Ste. Marie, Ontario. I am a small businessman and operate four Retail Ladies' Wear stores in the Province of Ontario. I am also President of the Retail Merchants Association of Canada (Ontario) Inc. and, in this context, I am appearing as the official representative of that organization. I should like to introduce Mr. D.W. Rolling, General Manager of our Ontario Association, who will be available for any questions that you might wish to direct to him.

May we first acknowledge the importance of the Government's action in the establishment of a Royal Commission on Taxation and the comprehensive scope of the Terms of Reference. We fully appreciate the immensity of the assignment you have undertaken and the competent manner in which you are proceeding with the subject of your enquiry and its numerous ramifications. We realize that the implementation of your findings will have a deep impact upon the economic, financial and social structure of the nation.

It is therefore with a deep sense of responsibility that we present our brief on behalf of a large cross-section of the retail industry in Canada. If we can add something to your deliberations we shall be grateful for the opportunity of presenting our views.



A. RETAIL MERCHANTS ASSOCIATION OF CANADA (ONTARIO) INC.

1. PRESENT ORGANIZATION

The Retail Merchants Association of Canada Inc. was established in 1896 and its founding members were a group of retailers located in the Provinces of Ontario and Quebec. It was incorporated as a national organization by a Special Act of Parliament in 1910 as a voluntary, non-profit organization with authority to organize provincial and regional groups of retailers throughout Canada having aims and objects similar to those of the Dominion Association. The Dominion Association then proceeded to form provincial organizations in Ontario and Quebec, followed by the Western Provinces and the Maritimes, all of which were subsequently incorporated provincially with aims and objects similar to the Dominion Association. All Provincial Associations are members of the Dominion Association.

2. AIMS AND OBJECTS

The aims and objects of the Retail Merchants Association of Canada (Ontario) Inc. are:-

- a) The promotion of the industrial and commercial interests of the retail merchants of Ontario;
- b) The collection and publication of information and statistics relating to or concerning such interests;
- c) The arbitration and settlement of trade disputes arising between any of its members;
- d) The procuring and furnishing to its members, information as to the solvency of persons who deal with any of its members;



1 e) Generally all such other lawful and similar
2 objects for promoting the trade interest of
3 its members as may from time to time be deter-
4 mined by the Association, including without
5 limiting the generality of the foregoing,

6 - the promotion of co-operation amongst
7 retail merchants, and

8 - adoption of proper business methods
9 and high business standards, and

10 - the elimination of wasteful methods
11 and harmful practices

12 all to the end that the interests of the retail
13 merchants and the consumer shall best be served.

14 f) To achieve these ends, the Association shall
15 establish an office and set up an organization
16 to represent all trade groups and retail
17 classifications and with objects and purposes
18 similar to the Dominion Association but
19 restricted to the Provincial field.

20 The offices of the Association are located in
21 the City of Toronto and have been conducting the business
22 of the Association for more than fifty years.

23 3. DIRECTORS

24 The affairs of the Provincial Association are
25 governed and directed by experienced retailers who volun-
26 teer their time and service. The Board of Directors is
27 elected by the membership at each Annual Meeting and is
28 representative of various retail classifications in most
29 regions of the province. The Ontario Board elects Directors
30 to the Dominion Board by equal representation.



4. MEMBERSHIP

To be eligible for membership in the Association, an applicant must be a retail merchant carrying on business in the Province of Ontario, or a nominee of a corporation carrying on business in the Province of Ontario; be approved by the Board of Directors of the Association and pay the annual fee set by the Board of Directors.

Associate Memberships, with no voting privilege, are extended to manufacturers, distributors or jobbers whose activities are confined to the Province of Ontario and who are desirous of supporting the aims and objects of the Association.

Membership in the Association is voluntary and predominated by the operators of aggressive, independent retail outlets usually categorized as 'small business. A characteristic of retailing in Canada is the preponderance of independently owned and operated stores which account for more than 90 per cent of retail outlets. This situation is as true in Ontario as it is elsewhere in Canada. It is probably for this reason that the Retail Merchants Association has been recognized for many years as the official spokesman for small business in Canada.

B. THE IMPORTANCE OF RETAILING TO THE NATIONAL ECONOMY

To measure the relative importance of retailing to the economy an examination of the industry would be useful in terms of business volume, distribution of sales, total number of retail stores, types of ownership, employment and taxation.

1. RETAIL SALES

Total retail sales in Canada for 1962 amounted to



1 \$17.4 billion of which the Province of Ontario accounted
2 for \$6.5 billion or 37.3% of the total. (Table I).

3 2. DISTRIBUTION OF SALES

4 In 1961, chain stores accounted for 21.4 per
5 cent of total retail sales, independents 78.6 per cent.
6 (Table II).

7 In the Province of Ontario for the same period,
8 the percentages were 25.3 per cent for chains, 74.7 per
9 cent for independents.

10 3. NUMBER OF RETAIL STORES

11 There was a total of 124,608 retail establish-
12 ments in Canada in 1930. In the year 1941, this figure
13 had increased to 136,990 whereas there were 153,034 stores
14 in operation in 1951. (Table III). While the official
15 1961 figures are not yet available, the Retail Merchants
16 Association has projected an increase to approximately
17 180,000 retail stores in Canada, of which slightly more
18 than 60,000 are located in the Province of Ontario.

19 4. TYPES OF OWNERSHIP

20 There are three general classifications of retail
21 stores by ownership. The single-unit independent store
22 has long been dominant. In 1960 there were 9,954 retail
23 chain stores as reported in the 1962 Canada Year Book. The
24 third ownership group is the consumers' co-operative, owned
25 and operated for the mutual gain of owner-members. Favoured
26 tax treatment has been a major factor in the rapid growth
27 and expansion of this group into a wide variety of merchan-
28 dising activities.

29 5. EMPLOYMENT

30 It is estimated that during the past ten years



more than 600,000 people, or one out of every ten people working in the Dominion, are employed in retailing. (Table III). The employment of many other people whose jobs are intimately linked to retailing is dependent upon the economic health of the retail industry.

6. INCOME TAXATION

Retailers are heavy contributors to the Federal Treasury at the income tax level, separate and apart from the payment of Federal excise and sales tax on their stock-in-trade. For the 1960 taxation year, 10,819 retail companies with net taxable income of \$244.4 million contributed \$86.8 million in corporation tax. (Table IV). Individual Income Tax Statistics indicate that 77,733 business proprietors in the Retail Trade paid tax amounting to \$45.4 million. (Table V).

7. FAIR COMPETITION

Retailing is a highly competitive industry. The geographically dispersed and heterogenous group of economically important people we represent are the providers of services essential to the daily needs of our people everywhere. Retailers feel they know a good deal about the subject of competition. They are, as it were, the shock troops in the competitive battleground. Their many years of business experience in the predominantly free enterprise climate of this country have taught them that efficiencies are encouraged, resources are used in the areas where they yield the best returns, and the customer is better satisfied with goods and services whenever fair and vigorous competition is allowed to flourish.

With that principle we are in full accord but it



1 is economically elemental that the only form of competition
2 which will produce these results is that form of competi-
3 tion which is fair and equitable to all. Any other type
4 of competition rapidly develops into a weapon of high
5 destructive import.

6 We do not claim to be tax experts but we have
7 given considerable study to certain tax problems of busi-
8 ness as they affect competition and the views we express
9 are based on years of practical experience and thoughtful
10 observations.

11 C. TERMS OF REFERENCE

12 The Terms of Reference with which this Submission
13 is specifically concerned are as follows:-

- 14 a) The distribution of burdens among taxpayers
15 resulting from existing rates, exemptions,
16 reliefs, and allowances provided in the
17 personal and corporation income taxes, estate
18 taxes, and sales and excise taxes, taking
19 into account also the jurisdiction and prac-
20 tices of the provinces and municipalities.
- 21 c) Provisions in existing laws which may have
22 given rise over the years to anomalies or
23 inequities or which may require action to
24 close loopholes which permit the use of
25 devices to avoid fair taxation.
- 26 f) The changes that may be made to achieve
27 greater clarity, simplicity and effectiveness
28 in the tax laws or their administration.
- 29
30



D. STATEMENT OF POSITION

1. OBJECTIVES OF A SOUND TAXATION POLICY

Our position on taxation, expressed in broad terms, would be to state that the Retail Merchants Association would support a taxation policy which would:-

i) Close the inequitable gap between business corporations that are fully taxed and those that are only partially taxed or tax exempt.

ii) Reduce the rate on corporation income.

iii) Reduce the rate on individual income.

It is our view that such a taxing policy, accompanied by a compensating reduction in Government expenditures, would stimulate business investment, increase the rate of economic growth and restore equity to our system of taxation.

As you know, our appearance today is preliminary to the brief of the Retail Merchants Association of Canada Inc. scheduled to be presented to the Commission Hearings in Ottawa during the month of September. The Dominion Association brief will be comprehensive and documented by statistical data and the results of considerable economic research. For that reason our own submission on behalf of the Ontario Association will be confined to a general discussion of "The Effect of Tax Inequity on the Economy of Canada and on Fully Taxed Competitors."

2. TAXATION OF CO-OPERATIVES IS INEQUITABLE

The inequity with which we are principally concerned is that which occurs in the taxation of co-operatives as compared with the taxation of ordinary businesses.



1 First and foremost it should be emphasized that
2 it is not the purpose of the Retail Merchants Association
3 nor is it the purpose of other proponents of equity in
4 co-operative taxation to stand in opposition to co-opera-
5 tives or the co-operative idea. Their purpose is merely
6 to seek equality of taxation and to eliminate competitive
7 inequities. We do not dispute in any way the right of
8 every citizen of this country to do business in any fashion
9 he chooses, nor do we suggest that co-operatives are not
10 observing the provisions of our taxing statutes. It is
11 our contention, however, that the Income Tax Act is so
12 framed that businesses carried on as co-operatives can
13 minimize their income tax payments to a level which is
14 unfair in relation both to the amount of the tax paid by
15 ordinary businesses and to the benefits which co-operatives
16 and their members derive from the fruits of taxation.

17 E. STATEMENT OF PROBLEM

18 1. THE TAX PRIVILEGES OF CO-OPERATIVES

19 Throughout the country in the merchandising field
20 and in various other industries there are two forms of
21 business competing with each other. One of these pays up
22 to 52 per cent of its net profits to the Government. The
23 other, a co-operative corporation, keeps most of its profits
24 and expands on tax-free income. Because of this situation,
25 the problem of co-operative taxation has been raised time
26 and time again before various Government bodies. It will
27 continue to be raised until equitable laws are passed so
28 that competing businesses are taxed in the same way and on
29 the same basis.

30 The businesses we represent are happy to take on



1 any competition, co-operative or otherwise. All we ask
2 is that the ground rules be the same for everyone. It is
3 logical that income tax should be applied equitably so
4 that all businesses make tax payments to the National
5 Revenue proportionate to their profits.

6 Co-operatives were first granted their special
7 tax privileges at a time when many of them were of the
8 'Agency' variety and the Federal Income Tax rates were
9 comparatively low and as a result income tax did not
10 approach the significance it has today.

11 The present important tax concessions to co-opera-
12 tives have arisen through the higher income tax rates
13 brought into effect since the outbreak of World War II
14 when the corporation tax rate was 15 per cent. Today it
15 ranges from 21 per cent to 52 per cent.

16 When taxation rates applied to some businesses
17 range as high as 52 per cent, a concession which enables
18 co-operatives to restrict their liability to as low as 5
19 per cent of their profits and provides a vehicle for
20 reinvestment of tax-free income is, on the face of it, an
21 extreme form of discrimination in favour of co-operative
22 enterprise.

23 2. EFFECT ON SMALL BUSINESS

24 The special tax treatment of co-operatives is a
25 subject of deep concern to all ordinary businesses regard-
26 less of size or type. In fact, it is the opinion of the
27 Retail Merchants Association that small and medium-sized
28 business firms suffer most from the tax disadvantage.
29 Co-operatives can invest huge sums of tax-free money to
30 grow bigger and stronger. Large corporations can raise



1 funds from the capital markets to finance expansion.
2 Small and medium-size businesses, which predominate in the
3 retail industry, as a general rule, have no access to the
4 established sources of capital and they pay a high rate of
5 income tax relative to co-operatives before they can rein-
6 vest for stability and growth.

7 According to Professor L.I. Barber, College of
8 Commerce, University of Saskatchewan:

9 "The co-operative tax advantage exerts
10 maximum impact not on a large corporation,
11 but on a small business unit which cannot
12 defend itself."

13 3. R.M.A. RESOLUTION

14 This is precisely why the Retail Merchants
15 Association of Canada, representing the largest sector of
16 Small Business in the nation, unanimously adopted this
17 resolution at its Annual Meeting in June, 1962:-

18 "WHEREAS both co-operatives and ordinary
19 businesses earn profit and the profits
20 of co-operatives amount to multi-millions
21 of dollars each year, and,

22 "WHEREAS all persons and corporations in Canada
23 benefit from government services, financed
24 by income tax collected from personal
25 income, the profits of business and,

26 "WHEREAS it is therefore logical that income
27 tax should be applied equitably so that
28 all businesses pay income taxes propor-
29 tionate to their profits and,

30 "WHEREAS under present tax laws, co-operatives



1 can organize their businesses so that they
2 need pay tax on only a very small part of
3 their profits by declaring patronage
4 dividends which are allowed to be deducted
5 from profits before tax is calculated and,

6 "WHEREAS many co-operatives pay out to their
7 members only a small part of the amount
8 of the patronage dividend, retaining the
9 balance for years as tax-free capital and,

10 "WHEREAS it is unfair that such a small part of
11 co-operative profits is paid toward the
12 cost of social and welfare benefits and
13 other government services from which
14 co-operatives and their members derive
15 the same benefit as others and,

16 "WHEREAS the disparity in the tax burden
17 between co-operatives and ordinary busi-
18 ness provides co-operatives with an
19 unfair trading advantage which already
20 has forced many competitors out of busi-
21 ness and the situation is rapidly worsening
22 to the detriment of all people and,

23 "WHEREAS other taxpayers are loaded with the
24 taxes which the co-operatives are not
25 asked to pay and this load is becoming
26 progressively heavier because the co-opera-
27 tives are growing faster.

28 BE IT RESOLVED that the Retail Merchants Associa-
29 tion of Canada Inc. favours the principle of
30 equality in taxation and that the present



1 disparity in taxation between ordinary busi-
2 ness and co-operatives be removed by the
3 Federal Government."

4 4. SOLUTION RESTS WITH REMOVAL OF INEQUITIES

5 The problem of co-operative taxation is critical
6 and, unfortunately, often supercharged with emotion. But
7 it is a problem which needs solution. It is a subject of
8 much greater importance than it may appear at first glance.
9 The loss of revenue to the Federal Treasury, although
10 substantial, is not the point of major concern compared
11 with the significance of the tax privilege as an impediment
12 to free competition, its effect on the use of the nation's
13 resources, and perhaps also its implications for the future
14 organization of our economy.

15 This problem comes well within the range of the
16 Commission's enquiries and it is our opinion that it can
17 only be solved by the removal of the basic taxation inequi-
18 ties which have caused it.

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SECTION II

THE BASIS OF TAX DISCRIMINATION

A. PRESENT LEGISLATION

The sections of the Income Tax Act which have the effect of conferring competitive advantage on co-operatives are:

- 73 (new co-operatives)
- and
- 75 (ordinary trading co-operatives)

1. SECTION (73) TAX HOLIDAY

The three-year tax holiday granted new co-operatives is certainly the most obvious and clear-cut of all co-operative tax advantage. It is a discriminatory concession which is not granted to other businesses.

2. SECTION (75) PATRONAGE DIVIDENDS

By far the most significant preferences given co-operatives are those stemming from Section 75, which in essence apply both to co-operatives and ordinary companies. In brief, this section provides that a corporation, co-operative or otherwise, can, subject to certain restrictions, deduct in computing its income for a taxation year, patronage dividends paid to customers. The taxpayer is permitted to vary the rate of patronage as among various classes of goods and services sold or provided and as between members and non-member customers. Non-member customers may be excluded from such payments. By Section 75 (2) the allowable patronage dividend payments to members may not exceed that part of the income of the taxpayer deemed to have arisen from its business with its members. Section 75 (3) prohibits the taxpayer from eliminating its income altogether by the payment of patronage dividends. It



1 provides that the taxpayer may not, by the payment of
2 patronage dividends, reduce its income below an amount
3 equivalent to 3 per cent of the capital employed in the
4 business ("capital" being ascribed the definition used in
5 the first schedule of the Excess Profits Tax 1940, subject
6 to one minor qualification).

7 Section 74 (4) provides that "payment" of pat-
8 ronage dividends can be achieved for the purpose of the
9 Act by a variety of ways. These methods of "payment"
10 include cash, revolving fund arrangements, the issue of
11 new share capital and various schemes whereby dividends
12 are declared contemporaneously with the exaction of a
13 loan of a similar total from all the members.

14 Exemption for patronage dividends in the hands
15 of members of consumers' co-operatives is granted by
16 Section 75 (6). Other patronage dividends whether or
17 not paid in cash are taxable if the customer is in a tax
18 paying bracket. They are, of course, taxable at the
19 customer's individual tax rate.

20 The income tax liability of co-operatives under
21 present legislation is therefore calculated on the basis
22 of the greatest of:-

- 23 a) The total unallocated profit earned
 - 24 b) The profit arising from non-member business
25 that is not distributed to non-members
 - 26 c) That amount of current profit equal to 3
27 per cent of capital employed.
- 28
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B. SECTION '75' DISCRIMINATES
AGAINST ORDINARY BUSINESS

1. TAX-FREE The effect of Section '75', then,
PATRONAGE is to provide a facility whereby tax-
DIVIDENDS free dividends may be declared but not
IMPRACTICAL necessarily paid out in cash according
FOR ORDINARY to a formula which is practical in the
BUSINESS hands of co-operatives and impractical
for the purposes of ordinary businesses.
It is not possible for ordinary corp-
orations to make significant use of Sect-
ion '75' of the Act. The managements
of such corporations owe a duty to
account for their corporations' profits
to their suppliers of risk capital -
their shareholders. This duty can only
be fulfilled by paying dividends on share
capital. On the other hand, by the
declaration of patronage dividends,
co-operatives discharge their respon-
sibility to their suppliers of risk
capital because their customers are
also the suppliers of this type of
capital.

2. TAX Co-operative partisans argue that no
DISCRIMINATION discrimination exists because there is
AFFIRMED only one Income Tax Act and the prov-
isions of Section '75' are available
to ordinary corporations as well as to
co-operatives. The implications of such



1 an argument are abundantly clear.

2 If ordinary businesses want a more fav-
3 orable tax deal, they must reorganize
4 their affairs the co-operative way.

5 The result of such a step would be the
6 ultimate withdrawal of investment
7 capital from industry and from Canada.
8 The eventual outcome would be the end
9 of revenue from corporate income taxes.
10 Then the tax system would have to be
11 reconstructed and, perhaps, this would
12 be done in more equitable form than
13 that which exists now.

14 The position is well summed up
15 in the publication "Recent Growth in
16 Canadian Co-operatives" at Page 36:--

17 "It is of course obvious that because
18 of difference in structure and organ-
19 ization as between Co-operatives and
20 ordinary corporations, the payment of
21 patronage dividends may be employed
22 much more effectively by the former
23 where the benefit of such payments
24 accrues directly to the owners of
25 the enterprise. In ordinary
26 corporations such payments reduce the
27 equity of owners and have therefore been
28 established only in exceptional circum-
29 stances. In practice, their use of
30 patronage dividends as a means of



1 reducing taxable income is impract-
2 icable, being inconsistent with the
3 purpose of ordinary corporate enterprise
4 and with its continuity. To point out,
5 as is frequently done, that ordinary
6 corporations are free to reorganize
7 as co-operatives is not to deny but to
8 affirm the reality of discrimination as
9 between the two forms of organization.
10 The essence of this discrimination lies
11 in the fact that whereas Section 75 (1)
12 makes no discrimination in the "quality"
13 or nature of income earned by
14 co-operatives, and by ordinary corpor-
15 ations, it does make a distinction in
16 the taxing of such income, depending
17 upon the particular pattern in which it
18 is distributed. (Sections underscored
19 by R.M.A.) If the enterprise chooses
20 to distribute the net earnings with refer-
21 ence to share capital, Section 75 (1)
22 becomes applicable in reducing taxable
23 income; if it distributes earnings
24 with reference to share capital,
25 Section 75 (1) does not apply. Among the
26 possible objectives of such tax legis-
27 lation, equity is one which does not
28 appear to be achieved by a situation
29 in which the differential treatment
30 rests solely upon the particular internal



1 pattern of claims upon earnings which
2 the enterprise chooses to adopt."

3 (Sections underscored by R.M.A.)

4 3. REMOVAL OF CORPORATE TAXATION IS NOT THE ANSWER

5 In their anxiety to resist the imposition of a
6 fair measure of taxation co-operative spokesmen have been
7 known to advance the argument that the Government should
8 abandon the field of corporation tax altogether. In this
9 fashion, they reason, the co-operative - ordinary business
10 tax controversy would be solved and equality would
11 be achieved by eliminating corporation tax entirely.

12 This proposal serves to again emphasize the in-
13 equity which exists. It is doubtful that it can be other-
14 wise considered seriously.

15 While it may be pleasant to envisage a world
16 without corporate taxation there seems little prospect of
17 this utopian state coming about. It seems to us that any
18 Government of this Nation is going to be obliged to
19 continue to incur expenditures at current or even higher
20 levels. It is doubtful that another source of taxation
21 could be found which would provide the \$1-1/3 billion
22 that is derived annually from corporate profits.

23 Taxation of corporate profits is regarded as
24 a necessity, although an unpleasant one. But there is one
25 important qualification. To be acceptable, the application
26 of the taxing statutes should be completely free of in-
27 equity.

28 In any event, the problem confronting us is too
29 urgent to await the emergence of any alternative
30 taxation system if any there be. The problem must be



1 solved here and now in the context of our existing system.

2 It is the conviction of the Retail Merchants
3 Association that under the principles of present tax
4 legislation no distribution of profits to the owners of
5 a business should go untaxed. Equity in taxation is a
6 matter of simple justice and co-operatives should be taxed
7 in the same manner and to the same extent as their fully-
8 taxed competitors.

9 4. THE POWER TO GROW WITH TAX FREE CAPITAL

10 Retailing with its rising costs of operation,
11 accelerating rate of obsolescence, lower mark-ups and
12 dwindling profits is hard-pressed to earn a fair return
13 on investment. For those businesses in direct competition
14 with co-operatives the problem is intensified because of the
15 ability of co-operatives to amass untaxed capital for
16 expansion and diversification from that portion of pat-
17 ronage dividends declared, but merely credited to the
18 member on the books of the co-operative for an indefinite
19 period of time. Co-operatives have been quick to seize upon
20 the privileges open to them to finance growth. Published
21 figures of some of the large co-operatives have
22 shown that on individual annual profits of several millions
23 of dollars they have limited their income tax liability
24 to as little as 5 per cent.

25 The submission of our Dominion Association will
26 statistically relate the growth of consumer co-opera-
27 tives to their tax privileges and the effect of this
28 growth on fully-taxed competitors. We will therefore
29 confine this aspect of our brief to a further reference
30 to "Recent Growth in Canadian Co-operatives" in which



1 Professor McIvor makes an assessment of some of the basic
2 issues in the controversy. Following his analysis of
3 what is taking place in the field of lumber and building
4 supplies, he states at Page 29:

5 "The hardware trade, another area of mer-
6 "chandising hard hit by co-operative inroads,
7 "offers a similar analysis. Here, as elsewhere,
8 "the total volume of sales has increased much
9 "more rapidly than the total number of retail
10 "outlets and the co-operatives' share of total
11 "sales has grown in part from a more
12 "rapid expansion of existing store facilities
13 "and in part from the buying out or the crowding
14 "out of competitors. (Sections underscored
15 "by R.M.A.) The case was put that it
16 "had become very difficult for a wholesale house
17 "to find a buyer when an independent merchant
18 "wishes to sell. The financial resources required
19 "to take over the concern will usually be be-
20 "yond the means of most individuals; but a
21 "co-operative, with its ready access to capital
22 "from various sources within the movement,
23 "can usually finance the take-over with
24 "relatively little difficulty. (Sections under-
25 "scored by R.M.A.) The trend in the distrib-
26 "ution of ownership of retail outlets therefore
27 "presents much the same picture as in lumber
28 "and building supplies and in both cases it
29 "is asserted that the co-operatives' superior
30



1 "access to capital, stemming from their tax
2 "position, renders inevitable the outcome of
3 "the competitive struggle, so that new "private"
4 "capital inevitably shuns such areas and
5 "its total share of the industry continuously
6 "declines. At the sholesale level, where the
7 "relative growth of co-operative hardware and
8 "equipment sales has been particularly
9 "striking the financial resources of the co-op-
10 "erative "wholesales" have been employed to
11 "take full advantage of the increasingly urban
12 "emphasis in co-operative merchandising. The
13 "supplying of their large urban shopping
14 "centres has been accompanied by a marked
15 "relative decline in the activities of "private"
16 "wholesale hardware outlets, the strength of
17 "which has been traditionally developed in
18 "the supplying of primarily rural areas".
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TAXATION TREATMENT OF PATRONAGE DIVIDENDS IN THE HANDS OF

RECIPIENTS

In the case of sales of consumer goods, which is a matter of primary concern to us, the small amount of tax paid by the co-operative is the only tax paid on its profits. Patronage dividends of consumer co-operatives are tax-free in the hands of the recipients.

In the case of other types of co-operative business, as we have pointed out, the member is taxably on his patronage dividends should he be in a taxable bracket. It must be realized, of course, that many recipients are in a comparatively low taxation bracket.

A comparison of the total tax paid by a corporation and its individual shareholders with the total tax paid on similar earnings by a co-operative and its members will disclose that the contribution of the individual corporation and its shareholders is several times as great as that of the co-operative group. This is the situation even after consideration of the individual tax credit provided for under Section 38 (1) of the Act.

In theory, at least, the patron-owners of a co-operative corporation obligate the corporation to distribute its profits to them, in one form or another, as a dividend on patronage. This, they claim, keeps the co-operative corporation from having any taxable income.

For a great many years successive Canadian governments have ruled that corporations should be considered as entities in their own right and as such should be treated as taxable. The Income Tax Act itself recognizes



1 that co-operatives do have income. Patronage dividends
2 of co-operative corporations represent co-operative
3 profits and they should be taxable as such regardless of
4 patronage dividend contracts.

5 In the hands of recipients patronage dividends
6 are, in essence, identical to the dividends of corporations
7 in the hands of shareholders. They represent the distri-
8 bution of profits and should be exposed to equal tax
9 treatment.

10 We submit that equity cannot be achieved in our
11 taxing laws until the deduction of patronage dividends is
12 disallowed in the calculation of corporation income tax.
13 It is our further opinion that provision should be made
14 for the taxation of patronage dividends in the hands of
15 recipients in exactly the same manner as tax is imposed
16 on common stock dividends in the hands of shareholders,
17 granting the same tax credit or allowances to each.

18 The present situation has a quality of fantasy
19 about it. While it is not denied that income has been
20 earned, our tax legislation has created a set of rules
21 whereby co-operatives my earnestly deny that they earned
22 it. Millions of dollars of earnings are wandering
23 homelessly about in the atmosphere without an admitted
24 taxable owner but in some mysterious way these orphan-
25 earnings are put to work as tax-free capital for profitable
26 investment in the building of warehouses, retail super-
27 markets, processing plants and otherwise providing the
28 funds for multi-million dollar enterprises.

29 The fact is that co-operatives are enabled to
30 eliminate most tax liability by the simple expedient of



1 allocating their income to their patrons.

2 6. THE EFFECT OF MEMBER FINANCE

3
4 The validity of the position we take can be
5 illustrated by a cursory examination of the financial
6 affairs of Federated Co-operatives Ltd., a wholesale
7 co-operative serving retail store members on the Prairies.

8 In 1961, Federated had gross income of
9 \$72,104,000. Total expenses, including cost of goods
10 sold, were \$68,756,000 leaving a net saving before income
11 tax of \$3,348,000. Of this amount \$25,000 was paid in
12 preferred share dividends and \$3,208,000 remained for
13 distribution for member co-operatives. The balance was
14 for estimated income taxes and amounted to the grand
15 total of \$135,000.

16 On an income of \$3,348,000 any private business
17 organization would be required to pay income tax amounting
18 to approximately \$1,664,000 before any allocation for any
19 purpose could take place. In the case of Federated Co-
20 operatives the major portion of the \$1,529,000 tax concession
21 was re-invested for growth - growth which takes place at
22 the expense of the taxpaying competitor.

23 Through the years Federated has consistently
24 reinvested a major proportion of the earnings rather
25 than pay out in the form of patronage refunds.

26 "During the period 1947 to 1957, patronage
27 refunds were paid by 2/3 in Certificates of
28 Indebtedness and 1/3 in Common Shares. Since
29 1958, patronage refunds were paid only in the
30 form of Common Shares. Cash returns to the



1 members have been achieved by revolving
2 certificates and re-purchasing shares.

3 The foregoing program of member finance
4 is prescribed by bylaw, proposed and approved by the
5 members. It does not readily lend itself to precise
6 dollar description of net distribution of patronage
7 refunds at a particular point in time since assumption
8 and discharge of member finance takes place annually. This
9 process tends to dim distinction between any individual
10 input or output.

11 A general but more comprehensive picture is
12 presented by viewing the net effect over a period of time.
13 For example, aggregate operating savings from 1947 to
14 1961 were \$27,651,000. It was pointed out previously
15 that savings were distributed in the form of equity in
16 the following year. Hence for the comparable period 1948
17 to 1962, equities in Common Shares, Certificates of
18 Indebtedness and reserves increased by \$15,596,000, there-
19 fore about \$12,055,000 was paid in income taxes and cash
20 dividends. The foregoing statement is, of course, a very
21 general one since cash subscription of shares, the two
22 mergers, etc., present some bias. (Source: Department of
23 Co-operation and Co-operative Development, Province of
24 Saskatchewan, Table and Notes, May 1st, 1963.)"

25 Reinvestment of tax-free earnings by owner-
26 members of co-operatives is a safe and sure device, without
27 equal, for financing growth. The sales of Federated Co-
28 operatives Ltd. have tripled since 1954, as indicated
29 below.
30



1	Sales:	Includes refinery, lumber, coal, etc., as well			
2		as those in Manitoba and Alberta after			
3		amalgamation.			
4		<u>Sask.</u>	<u>Manitoba</u>	<u>Alberta</u>	<u>Total</u>
5	1954	\$31,624,572	\$ -	-	\$31,624,572
6	1955	33,538,164	7,156,158	-	40,694,322
7	1956	40,022,158	6,028,971	-	46,051,129
8	1957	42,766,580	7,464,482	-	50,231,062
9	1958	45,252,460	8,801,990	-	54,054,450
10	1959	50,718,326	10,839,927	-	61,668,253
11	1960	48,428,023	18,882,255	-	67,310,278
12	1961	49,921,863	22,018,871	-	71,940,734
13	1962	57,304,264	23,061,709	\$14,459,879	94,825,852

7.

COMPARISON OF TAX OBLIGATIONS - CO-OPERATIVES, ORDINARY

CORPORATIONS AND OTHERS

Corporation tax on taxable income of up to \$35,000 amounts to 18 per cent plus 3 per cent old age security tax or a total of 21 per cent. The rates on taxable income in excess of \$35,000 are 47 per cent plus 3 per cent or a total of 50 per cent. In the Province of Ontario, credits are allowed against the corporation tax amounting to 9 per cent of the taxable income and offset by Provincial corporation income tax of 11 per cent. Therefore the rates of corporation tax in Ontario are 23 per cent on the first \$35,000 of taxable income and 52 per cent thereafter.

It will now be interesting to compare the income tax-paying obligations of two corporations - one organized on a joint-stock basis, and the other on a



1 co-operative basis, and both having the same net profit of
2 \$200,000 at the end of their trading year. For the
3 purpose of this illustration, it will be assumed that
4 the entire business of both companies was carried on
5 within the Province of Ontario.

6 It is not unlikely that the co-operative would
7 declare a patronage dividend to the members in the amount
8 of three-quarters of its profit, or the sum of \$150,000.
9 Of this amount perhaps \$50,000 would be distributed in cash
10 and \$100,000 would be retained by the co-operative
11 corporation in the form of a loan from its members and
12 credited to their accounts in one bookkeeping operation.
13 The co-operative would deduct the whole \$150,000 from its
14 profits and so would have a taxable income of only
15 \$50,000. On this taxable income, it would pay income tax
16 at the rate of 23 per cent on the first \$35,000, 52 per
17 cent on the balance. Its total income tax payment would
18 be \$15,850 or 7.0 per cent of its earnings.

19 The joint-stock corporation, on the other hand,
20 because of its corporate structure and the impracticability
21 of paying patronage dividends would be taxable on the
22 whole of its net earnings of \$200,000. Paying income tax
23 at 23 per cent on the first \$35,000 of taxable income and
24 52 per cent on the balance, the joint-stock corporation
25 would pay a total of \$93,850 or 46.92 per cent of its
26 profit in tax. On the same earnings, this company contri-
27 butes nearly six times more tax than the co-operative.

28 The competitive disadvantage of the ordinary
29 corporation in the above example is obvious and needs no
30 emphasis here. It is not so widely known that a



1 cp-operative often has a fantastic tax advantage over an
2 ordinary individual trader, as well. For instance, an
3 individual engaged in trade cannot amass untaxed capital
4 for the expansion of his business the way co-operatives
5 can. If the individual comes into a taxable bracket, he
6 pays tax on every cent of his earnings.

7 In any event, such are the capital requirements
8 and other obligations of most businesses today that only
9 the smallest organizations can contemplate trading on
10 other than an incorporated basis. The vast majority of
11 sizeable businesses are incorporated. While it is true
12 that companies pay income tax at only 23 per cent on the
13 first \$35,000 of their profits, there is still a substantial
14 difference between 23 per cent and the 5 per cent or
15 less which many co-operatives pay.

16 However, even in the case of those businessmen
17 whom circumstances do not force into incorporation, there
18 is often a significant inequity between their tax obliga-
19 tions and that of their co-operative competitors. The
20 following example sets out the respective tax obligations
21 of an individual and a co-operative both engaged in the
22 grocery trade, and both having a net profit of \$10,000 at
23 the end of a year.

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Co-operative in Grocery Trade

Individual in Grocery
Business

Net Profit \$10,000.00
for current year

Net Profit \$10,000.00

Less

Patronage Dividends
(whether paid in 7,500.00
full or partly
retained in
business)

Less

Personal Allowances
2,500.00

Taxable Profit \$ 2,500.00

Taxable Profit 7,500.00

Tax Payable

(Federal and
Provincial)
(23% on \$2,500)

\$ 575.00

Tax Payable

(After giving effect
to Federal and
Provincial Adjustments)

\$1,483.20

In the distributive industries the use of cost-reducing systems and methods are today enabling corporations, co-operatives and independent wholesale and retail outlets to supply goods or services of a type desired by the public and at a price which the public is prepared to pay with much the same cost factor, operating margins and net profits. It can therefore be readily understood that if one segment of the distributive system, be it producing, wholesaling or retailing, or a combination of all, permitted a discriminatory advantage, such as major tax concessions, all other competing systems of the industry are severely penalized. It is impossible for a fully-taxed business concern to compete, for very long, with one that is virtually tax-free.

There is one thing taxpayers dislike more than the burden of taxes they are required to pay. It is a tax



1 law that favours some persons or classes to the prejudice
2 or detriment of others who often are in competition with
3 them. Taxpayers are entitled to the assurance that other
4 persons or firms similarly situated are treated likewise.

5 No disinterested observer can argue that co-
6 operatives are now taxed on "the same basis as other
7 persons". Again this subject was dealt with in the recent
8 Canadian Tax Foundation study:

9 "It was pointed out in the author's
10 earlier study that the present Canadian tax
11 legislation does, in economic reality, discrimi-
12 nate in favour of co-operative enterprise and
13 that the consequence of such discrimination is
14 to provide co-operatives with access to relatively
15 large sums of tax-free capital to finance the
16 establishment and expansion of their trading
17 organizations. This access is of course enor-
18 mously facilitated by their ability to allocate
19 patronage payments in forms other than cash,
20 thereby actually retaining the funds within the
21 organization. These funds, as co-operative
22 officials freely concede, represent a crucial
23 factor in their having achieved such a remark-
24 able rate of growth since World War II and this
25 may well be much more important as an explanation
26 of their generally increasing share of total
27 sales in markets where they operate, than the
28 steady improvement in managerial efficiency which
29 has been achieved within the movement."
30



SECTION III

CO-OPERATIVE INCOME

and

THE NATURE OF PATRONAGE DIVIDENDS

Co-operatives are not charitable organizations, they are corporate entities organized for the gain of their members. Co-operatives own property, enter into contracts, incur debt and transact business in their own name, taking all of the risks of profit and loss. They earn income which is primarily the income of the business and have interests distinguishable from those of their individual patrons and they retain profits within their organization to finance growth. Co-operatives are organized in perpetuity and their members have limited liability. Co-operative associations file income tax returns and enjoy all the services provided by the state and paid for by taxation.

These are all striking points of similarity between co-operatives and ordinary corporations.

The only point of dissimilarity between the two types of organization is the manner in which they distribute their profits.

The ordinary business distributes in its proportion to the amount of capital risked by the shareholders; the co-operatives in proportion to the volume of business done by the members.

This one point of dissimilarity seems exceedingly illogical as an explanation or justification for the wide disparity in the collection of co-operative profit as tax.



Co-operative spokesmen deny that they earn profits and propound two main theories of exclusion in support of their position. They may be referred to as the 'agency' theory and the 'price adjustment' theory.

1. 'AGENCY' THEORY

The 'agency' theory holds that the co-operative is merely the agent of its patrons and that when there is an excess after it has paid its expenses on behalf of the patrons, it is legally obliged to distribute that remainder to them. It acts, supposedly, simply as a trustee when it takes legal title to their products in order to facilitate sales.

Mere observation shows that many co-operatives have departed completely from the original 'agency' basis of doing business and carry on business for profit in just the same way as joint-stock companies do. This is a particular characteristic in co-operative organizations where the profits earned in the course of a year arise from a great diversity of commercial projects, most of which bear no direct relationship to the purpose for which the organization was founded.

Any organization that pays dividends and accumulates reserves, as a co-operative usually does, can hardly be regarded as a mere legal agent for its owner-patrons.

For instance, if a 'marketing' co-operative were to sell the product of each particular member and then account to each for the gain or loss on his specific sale, the fact of 'agency' might be established. Or, in the case



1 of a 'purchasing' co-operative, if each patron were to
2 determine where, to what extent, from whom, and upon what
3 terms the goods he wanted were to be obtained, there could
4 be 'agency'. But neither 'marketing' nor 'purchasing'
5 co-operatives ordinarily operate in these ways. The
6 patronage dividend to any one member is not dependent upon
7 his individual transactions with the co-operative but
8 upon all his dealings throughout the year. The member is
9 a joint venturer in a corporate business, as is a stock-
10 holder in a business corporation (Robert T. Patterson
11 "The Tax Exemption of Co-operatives" p. 72).

12 In those cases where a true 'agency' relationship
13 exists and the co-operative carries on business at cost,
14 and does not evolve into a trading organization, the
15 exemption from tax is not attributable to any provision
16 of the Income Tax Act. It arises because such enterprises
17 do not earn any 'profit' within the legal definition of
18 this word. When a corporation, co-operative or otherwise,
19 realizes a gain from capital, labour, or a combination of
20 both, including profit from the sale or conversion of
21 capital assets, then it can be determined to have income.
22 To the extent that 'trading' co-operatives are organized
23 for the gain of their members and earn profits from
24 trading ventures they do have income.

25 2. 'PRICE ADJUSTMENT' THEORY

26
27 Probably the most influential argument of the
28 co-operatives is the 'price-adjustment' theory which
29 asserts that the co-operative transacts its business at
30 cost and that its patronage dividends are simply an



1 adjustment in the prices of the products it sells to or
2 buys from members. This theory fails to take account of
3 the fact that co-operatives are, in actuality, separate
4 as business entities from their patrons; that there is
5 an owner relationship as well as the patron relationship
6 between co-operatives and their members; and that the
7 transactions of successful co-operatives result in a gain
8 or profit; the net margin or the patronage dividend is
9 all or some part of that profit, and it is being distri-
10 buted or allocated to the members as the true owners of
11 the business.

12 In this sense there is no clear-cut difference
13 between patronage dividends in general and the dividends
14 of ordinary corporations. The fact that patronage dividends
15 are paid to patrons who are also stockholders, does not
16 make them anything other than a distribution of profits.
17 Co-operatives are organized to increase the gain of their
18 members and to the extent that they do so, they have
19 profits. A rebate is actually such only if paid to a
20 person whose interest is adverse to that of the business
21 which pays it. One point of significance is that the
22 gain of a 'marketing' co-operative arises from transac-
23 tions with those to whom it sells the products of its
24 members; the gain of a 'purchasing' co-operative arises
25 from its dealings with those from whom it purchases.
26 But the patronage dividend is not paid to the person or
27 firm from which the gain is derived (Robert T. Patterson
28 "The Tax Exemption of Co-operatives" p. 71.). It is
29 distributed to its member shareholders just as in the case
30 of ordinary corporations.



1 The co-operative claim that they have no income
2 has been rejected by the McDougall Commission on Co-
3 operative Taxation in 1945 and the claim finds no support
4 other than that from co-operative partisans. The Income
5 Tax Act itself, recognizes the fact that co-operatives do
6 have income and to that extent it is our view that they
7 should be subject to an equitable form of taxation.

8 The issues were again well summed up in the
9 publication "Recent Growth in Canadian Co-operatives".

10 The author stated at Page 36:-

11 "It is a basic aim of co-operative enter-
12 prise to operate on a non-profit basis on behalf
13 of their members. Sometimes they succeed from a
14 legal standpoint and sometimes they do not. As
15 pointed out earlier, they do succeed legally
16 where an 'agency' relationship with their members
17 can be established. Where they do not succeed,
18 and are deemed legally to earn profit, they
19 nevertheless contend that such profit is not
20 comparable to that of ordinary corporations,
21 being really in the nature of a 'price adjustment'.
22 This view not only finds no support in the
23 Canadian Income Tax Act but was rejected outright
24 by the Royal Commission on Co-operatives, which
25 conceded that a concept of "mutuality" might
26 originally have provided strong support for the
27 view that co-operatives could earn no profit,
28 but then noted that the concept of mutuality was
29 scarcely applicable to Canadian co-operative
30 business in recent times. In other words, they



1 were viewed as earning profit from trading ven-
2 tures undertaken. Nor does the view that co-
3 operatives' net surplus is not profit find much
4 support outside the movement itself. As a recent
5 careful study has stated this matter, it is
6 rather that co-operatives are organized to
7 increase the gain of their members, and to the
8 extent that they do do, they have profits. A
9 rebate is only such if paid to a person whose
10 interest is adverse to that of the business
11 which pays it. It is further noted that the
12 source of the patron-member's real gain is the
13 transactions of their associations with others
14 whose interests are adverse to theirs. Their
15 interests, like those of the stockholders of an
16 ordinary corporation, are furthered by the
17 operations of a separate and distinct business
18 entity (Section underscored by R.M.A.)."
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SECTION IV

ROYAL COMMISSION ON CO-OPERATIVES - 1945

In the years prior to 1944 there was considerable dissatisfaction among both business and individual taxpayers because co-operatives were not paying their fair share of the taxation load. As a result the McDougall Royal Commission was set up and directed to inquire into --

"a) The present position of co-operatives in the matter of the application thereto of the Income War Tax Act and the Excess Profits Tax Act, 1940, and

b) The organization and business methods and operations of the said co-operatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and

c) The comparative position in relation to taxation under the said acts of persons in any line of business in direct competition with co-operatives,

and report, insofar as the same can conveniently be done, all facts which appear to them to be pertinent for determining what would, in the public interest, constitute a just, fair and equitable basis for the application of the Income War Tax Act and the Excess Profits Tax Act, 1940, to co-operatives and persons other than co-operatives in respect of methods of doing business analogous to co-operative methods, such as the making of payments commonly called patronage dividends and to make such recommendations



1 for the amendment of existing laws as they consider to be
2 justified in the public interest."

3 Three recommendations of the Commission were of
4 major significance. In condensed form, they are: -

5 1) That the law be amended "to provide for
6 the taxation of co-operative associations and
7 organizations on the same basis as other
8 persons";

9 11) That co-operatives, ordinary joint-stock
10 companies and others be allowed to deduct amounts
11 paid as patronage dividends provided that they
12 were paid in cash or its equivalent within six
13 months;

14 11i) That newly formed co-operatives be
15 granted a three-year tax exemption.

16 The present legislation dealing with
17 patronage dividends and the tax exemption of new co-opera-
18 tives is partially the result of these recommendations
19 with the exception of 75 (4) (f) (11) which was a major
20 Amendment introduced in 1948. This Amendment, which we
21 believe is largely the result of representations made to
22 the Government by the Co-operative Union of Canada, exten-
23 ded the meaning of the word "payment" to embrace the
24 "forced loan" method of dealing with patronage dividends
25 which has been described elsewhere in this brief.

26 It will be interesting to examine the extent to
27 which the expressed aims of the Royal Commission's
28 recommendations have been achieved. The Legislation based
29 on the Commission's recommendations was introduced in 1946
30 and with the exception of the Amendment, to which we have



1 referred, has remained in substantially unaltered form
2 until the present day.

3 The key recommendation - "That co-operative
4 associations be taxed on the same basis as other persons" -
5 gives cause to believe that the Commission intended that
6 a co-operative and a corporation earning a similar profit,
7 should at the end of the fiscal year, have approximately
8 the same tax liability and the same opportunities of
9 limiting that liability.

10 In practice, this objective is far from being
11 realized.

12 The two recommendations which followed (ii) and
13 (iii) have created a tremendous amount of confusion in
14 the public mind as they are obviously inconsistent with
15 the first (i).

16 It has been clearly demonstrated that co-operatives
17 can minimize their tax liability by the declaration of
18 patronage dividends in a manner which is not practical for
19 the purposes of investor-owned businesses. The 1948
20 Amendment provides co-operatives with a convenient vehicle
21 by which these tax-free dividends can be reinvested and
22 pyramided into capital for a myriad of activities.

23 The 3 per cent limitation in regard to capital
24 employed (Section 75 (3)) seems to have been intended as
25 a provision to ensure at least some tax contribution from
26 co-operatives. It is evident from an examination of the
27 average rate s of tax being contributed by co-operatives
28 today that this provision falls far short of what is
29 required to establish any measure of rough justice. The
30 three-year tax exemption for new co-operatives (Section



73 (1)) based on the recommendation of the Commission is contrary to any principle of equality. It constitutes an extreme and indefensible form of discrimination in favour of new co-operative enterprise and should be rescinded.

The point was conclusively dealt with in "Recent Growth in Canadian Co-operatives" Page 33: -

"It will be recalled that Section 73 (1) provides that no tax is payable on the taxable income of a co-operative for each of the first three taxation years after its commencement of business. This provision is based on a recommendation made by the Royal Commission on Co-operatives in its 1945 Report in respect to representations that "in their early years, their (i.e. co-operatives) financial difficulties may be greater, on the average, than those of similar ordinary companies". At the present stage of development of the Canadian co-operative movement, where skilled management and strong financial support are commonly made available to newly organized enterprises, there is simply not adequate evidence to support such a generalization. It would be just as plausible, and as unwarranted, to advance precisely the opposite contention. This being so, it follows that Section 73 (1), applying solely to co-operatives, is discriminatory both in form and in fact, and this is surely one area of taxation in which conflict between co-operatives and ordinary corporations might well be reduced, either by extending the provisions



of Section 73 (1) to all corporate enterprise
(co-operative and ordinary) or by repealing
the legislation."

SECTION V

THE SCOPE OF CO-OPERATIVE BUSINESS IN CANADA

A. TOTAL BUSINESS VOLUME

As a retail association, we are of course
primarily concerned with the tax-subsidized competition
of co-operatives in the distributive industries. However,
to properly assess the scope of co-operative activities in
Canada, first consideration should be given to the total
dollar volume of co-operative combined business ventures.

1. 1960-1961 TRADING DOUBLES 1947

Total business done by all types of co-operatives
reporting for the crop year ending July 31st, 1961,
amounted to \$1.470 million, an increase of \$72.0 million
(5%) over 1960. (Table VI).

This volume represents a doubling of the 1947
figures. (Table VII)

2. FIVE-YEAR GROWTH RATES

The most pronounced growth has been witnessed
in recent years. Between 1957 and 1961 co-operative
assets have increased by 28 per cent, marketing sales by
25 per cent and the sale of merchandise and supplies by
38 per cent. (Table IX)

The co-operative share of sales of farm products
in Canada in 1960 was 33.3 per cent of the total (Table
VIII).



3. FIVE YEAR AGGREGATE

For the five year period from 1957 to 1961 the total sum of co-operative business amount to \$6.5 billion. This gives rise to two questions which are going to require considerable probing:

a) To what extent has this business been subsidized by the Federal Treasury? (A subsidy can be just as effectively granted by failure to collect tax as by the payment of cash).

b) To what degree is co-operative growth attributable to special tax treatment and what is the effect on their fully taxed competitors?

While it is extremely difficult to estimate the dollar value of tax concessions to co-operative organizations over any given period of time, it has been well established that co-operatives do have income and as such, they realize profits which are substantial in relation to the total volume of co-operative business in Canada. On these profits they make only token payments of income tax.

It is not possible to state that all of the gains in business volume which co-operatives have achieved can be attributed to taxation advantage. However, to the extent that co-operatives enjoy tax privilege, it is reasonable to state that a significant proportion of the unusual growth rates which co-operatives have enjoyed in recent years is so attributable.

One thing is eminently clear. Any form of business activity with annual sales amounting to \$1.5



1 billion is no longer dependent upon special tax privileges
2 to exist and prosper. Co-operatives can grow and prosper
3 under tax equality to the same extent as their business
4 competitors. This suggestion does not imply disapproval
5 of the co-operative movement. Co-operatives can still
6 perform their function without unfair tax advantages.

7 B. CO-OPERATIVE SALES OF MERCHANDISE
8 AND SUPPLIES

9 The rapid growth of co-operatives to a share of
10 one-third of the nation's total marketing of agricultural
11 products is an established fact. The more recent develop-
12 ment of co-operative merchandising (and wholesaling)
13 organizations gives cause to believe their rate of growth
14 will be even more spectacular than that of marketing
15 co-operatives.

16 1. STATISTICAL COMPARISON OF GROWTH RATES

17 Sales of merchandise and supplies by co-operatives
18 amounted to \$392.1 million for the crop year ending July
19 31st, 1961, compared with \$365.7 million in 1960, an increase
20 of \$26.3 million (or 7.2 per cent) (Canada Department of
21 Agriculture "Co-operation in Canada 1961" p. 5). By
22 comparison retail sales in Canada for the year 1961
23 increased by a mere 1.0 per cent (Dominion Bureau of
24 Statistics "Retail Trade - Decemger 1961" p. 12). Increase
25 in the wholesale trade as 1.5 per cent (Dominion Bureau
26 of Statistics "Wholesale Trade - December 1961" p. 3).
27 Leading provinces for co-operative sales of merchandise
28 and supplies were Quebec \$90.5 million, Saskatchewan
29 \$82.8 million, and Ontario \$74.5 million. The range of
30 commodities sold were food products, clothing and home



1 furnishings, hardware, petroleum products and auto access-
2 ories, feed, fertilizer and spray materials, machinery and
3 equipment, coal, wood and building materials and
4 miscellaneous. (Table X)

5 We have previously referred to the increase of
6 38 per cent in merchandising sales for the period 1957 to
7 1961. This compares with an increase of 12.3 per cent in
8 the retail trade of Canada for the same period (1962 Canada
9 Year Book - Domestic Trade and Prices - p. 870, Dominion
10 Bureau of Statistics - Retail Trade - December 1961 -
11 p. 8, Percentage rate calculated by R.M.A.) and 15.6 per
12 cent for the wholesale trade (1962 Canada Year Book-
13 Domestic Trade and Price - p. 868, Dominion Bureau of
14 Statistics - Wholesale Trade - December 1961 - p. 3,
15 Percentage rates calculated by R.M.A.).

16 In almost all sections of merchandising in which
17 co-operatives compete, their sales have outstripped and
18 in some cases far outdistanced the growth shown by total
19 Canadian sales. Examples of areas where co-operatives
20 have achieved much better than average results are in the
21 hardware trade (since 1958 co-operative sales have
22 increased 40 per cent against an increase in total Canadian
23 sales of 8 per cent); in the clothing and home furnishings
24 trade (since 1945 co-operative sales have increased 300
25 per cent while total Canadian increases have been 200 per
26 cent); and in the wood and building material trade (where
27 in the post-war years the record has been similar to that
28 in the clothing and home furnishings trade) (Canadian Tax
29 Foundation "Recent Growth in Canadian Co-operatives " p.
30 24).



From the standpoint of distribution there is another area of co-operative activity which should be considered. This is the progress of co-operative whole-sales which are federations of local co-operatives who act as central marketing agencies for farm products and as wholesalers of farm supplies, machinery and consumer goods. The wholesale associations had assets amounting to \$86,473,000 in 1960, of which members' equity represented 40 per cent. Total sales of supplies and farm products by these associations amounted to \$295 million, an increase of 4 per cent over the 1959 total.

In the recent publication of the Canadian Tax Foundation entitled "Recent Growth in Canadian Co-operatives" (published in 1962) Professor R. Craig McIvor of McMaster University, the author, had this to say about co-operative wholesales at Page 25: -

"In relation to the growth in the total wholesale trade (1953 - 1960), the rise in the trade of co-operative wholesales has been tremendous. In flour, feed and fertilizer, the co-operative wholesales' most important commodity category, sales doubled while total Canadian wholesale trade increased by only 13 per cent; in gasoline, oil and auto supplies, the co-operative sales likewise doubled as against the Canadian sales rise of 62 per cent; in machinery, hardware, and equipment sales more than doubled as against an overall 16 per cent increase; comparable rates for grocery sales were 207 per cent and 60 per cent; for coal, wood and building



1 materials, 100 per cent and 40 per cent; for
2 clothing, drygoods and home furnishings, 138 per
3 cent and 26 per cent. These extraordinarily
4 high rates of growth in co-operative wholesaling
5 figures are in part explained by their relatively
6 small base but in economic terms they reflect the
7 rapid expansion of the merchandising activities
8 of local co-operatives (especially as this move-
9 ment acquires an increasingly urban aspect) and
10 the rising proportion of the locals' merchandise
11 requirements which the wholesales are able to
12 provide through the increasing diversification
13 of their operations (including their manufactur-
14 ing operations). Between 1953 and 1960 their
15 aggregate sales rose from approximately 2 per
16 cent of total Canadian wholesale trade (in the
17 relevant commodity classifications) to approxi-
18 mately 3 per cent."

19 2.
20 THE SIGNIFICANCE OF CO-OPERATIVE GROWTH IN MERCHANDISING
21 TRADE

22 Co-operative spokesmen often claim that co-
23 operatives perform a relatively small percentage of the
24 total retail business (less than 3 per cent) done in
25 Canada. They infer from this that any taxation advantage
26 conferred on co-operatives is not very significant.

27 This has been the chant of co-operatives since
28 early settler days and the present version of this claim
29 ignores the fact that we are living in a world of change
30 and in an era when income tax has become the major
expense factor in the operation of competitive privately



1 owned business. It also fails to appreciate the hard
2 facts of competitive survival which dictate that dynamic
3 competition can maintain only as long as there is fair,
4 just and equal treatment for all contestants.

5 Most co-operative associations are no longer
6 mere neighbourhood groups of individuals working together,
7 combining their talents and their judgment and purposes
8 under their own direction to co-operate for mutual
9 benefits. They have grown to maturity, engage the services
10 of competent staff, employ the sophisticated techniques
11 of alert management, transact a large proportion of the
12 nation's business and continue to enjoy vast income tax
13 advantages over their fully-taxed competitors.

14 To properly assess the real impact of co-operative
15 tax privilege, you must look at the total volume of
16 business performed by co-operatives. Is it not rather
17 misleading and unfair to dissect this total into small
18 segments of trade and claim freedom from taxation because
19 "the infant is so small"?

20 So far as this consideration is concerned, the
21 share co-operatives have of retail trade is, admittedly,
22 relatively small, but this is by no means the whole story.
23 We have shown that their share is rapidly growing and in
24 some particular areas of the economy, co-operatives have a
25 dominant place in retailing. In the Province of Saskatchewan,
26 for instance, co-operatives are estimated to have handled
27 8.63 per cent of that Province's retail business in 1961
28 and have outstripped department stores in sales volume
29 (\$77,695,318 to \$67,847,000). This is an excellent
30 example of the manner in which 'particular segments' of



1 the 'private trade' can be affected by tax-favoured co-
2 operative competition out of proportion to the extent of
3 co-operative activity in an industry.

4 The position was well summed up in the paragraph
5 of the Canadian Tax Foundation findings "Recent Growth
6 in Canadian Co-operatives" Page 33:

7 "The statistically proved rate of growth
8 in Canadian co-operative marketing, merchandising
9 and wholesale sales since the end of World War
10 II has, it will be generally conceded, been
11 striking. Moreover, these sales gains are impres-
12 sive both when measured in absolute terms and when
13 measured relative to the rate of growth
14 achieved by competitors in the 'private' sector
15 of the economy. It appears to be a fair
16 generalization that co-operative sales have grown
17 a good bit more rapidly (in a number of areas
18 much more rapidly) than those of their competi-
19 tors. To put the matter differently, the co-
20 operatives in those areas of activity where they
21 compete with 'private' enterprise have substantially
22 increased their share of total trade. We have
23 shown that in the marketing of agricultural
24 products, the co-operatives' share of total
25 trade (although not growing as rapidly) is very
26 much greater than its share of total merchandis-
27 ing trade. What is most significant about co-
28 operative merchandising (and wholesaling) is not
29 its present small share of total Canadian mer-
30 chandising (and wholesaling) (a fact to be



1 explained by its relatively recent development
2 and relatively limited range of commodity
3 groupings traded), but its very rapid growth
4 throughout its still limited range of operations
5 and the severe competitive pressures which it has
6 been able to bring to bear on particular segments
7 of the 'private' trade." (Section underscored
8 by R.M.A.)

9 May we emphasize that 'consumer' co-operatives
10 are relatively new entrants in the field of retailing but
11 nevertheless their growth rates in most instances are more
12 rapid than national averages. Most significant of all,
13 traditional retailers are fully-taxed, often paying ten
14 times as much income tax as their co-operative competitors.
15 Even if the taxing injustice was as small in scope as
16 claimed (which it is not) this would be no reason for
17 tolerating it. Rights and wrongs are absolutely unaffected
18 by dimension.

19 3.

CO-OPERATIVE PLANS FOR THE FUTURE

20 In case the Commission has any doubt about the
21 scope of co-operative activity in the distributive indus-
22 tries and the potential growth of these activities, we
23 are going to quote extracts of statements attributed to co-
24 operative leaders which are not only ambitious but capable
25 of fulfillment with the perpetuation of their tax
26 advantage.

- 27 1) Brief of the Co-operative Union of Canada
28 to the Royal Commission on Price Spreads of Food
29 Products - Ottawa, November 18, 1958. Reprinted
30 as "The Case for Co-operatives" 1959 - page 10:



1 "Our contention is that the whole system
2 of food distribution should be owned by producers
3 and consumers co-operatively. We look to the
4 day when producers and consumers will meet and
5 establish prices through their co-operatives and
6 thus eliminate the middleman altogether in the
7 distributive chain."

- 8 2) Mr. H.L. Fowler (1962) President of the
9 Interprovincial Co-operatives, reported as
10 stating:

11 "Co-operatives hope to acquire 25 to 35
12 per cent of the 'total business of provi-
13 ding goods used by humans' within the
14 next twenty years."

- 15 3) Mr. Martin J. Legere, President of Le
16 Conseil Canadien de la Co-operation addressing
17 the Annual Meeting of the Co-operative Fire and
18 Casualty Company and Co-operative Life Insurance
19 Company - Reported by the Western Producer,
20 March 14, 1963: -

21 "Within 25 years Credit Unions should have
22 6 million members and own assets of from
23 \$8 to \$10 billion; Producer Co-operatives
24 should double their business to \$4 billion;
25 Consumer Co-operatives should boost their
26 volume to \$2 billion annually; a growth
27 from 2 per cent to 25 per cent as the
28 Co-operatives' share of the nation's total
29 oil business."
30



4.
ORDINARY BUSINESS CANNOT COMPETE WITH A GOVERNMENT TAX
SUBSIDY

In the light of these statements any attempt to excuse co-operative tax advantage because of its present volume seems to be unrealistic. It is our belief that the fault in our taxation system is a severe one and its adverse effects are constantly growing as long as it is perpetuated. Ordinary businesses are always prepared to meet any competition that is waged on the basis of efficiency, price or other normal competitive factors. They cannot compete with what amounts to a government tax subsidy.

It has been said and it bears repetition that the total volume of consumer goods sold in any specified period of time is dependent entirely upon the consumer requirements during that given period of time and not upon the number or nature or class of people or business concerns merchandising such products. Co-operatives add nothing to or take nothing away from that volume but every percentage increase in co-operative volume inevitably means a similar percentage decrease in the volume handled by their taxable competitors.

To put it another way, any increase in co-operative distribution of consumer goods measured in terms of percentage of the total volume of national sales results in a material lessening of available national revenue.



SECTION VI

A. CONCLUSION

It has been the purpose of this Submission to direct the attention of the Commission to the fact that our present Income Tax Legislation is inequitable and confers tremendous tax concessions on co-operative associations to the detriment of their fully-taxed competitors. This is a matter of grave concern to the retailers of this country owing to the unfair competitive advantages granted by our tax laws to co-operative trading organizations which are highly concentrated in the distributive, marketing and service sectors of the economy. We are also firm in our opinion that this inequitable situation is uneconomic in its relationship to the national welfare. It involves the misallocation of the nation's resources, a loss of revenue to the Federal Treasury and shifts the tax burden to the shoulders of other taxpayers.

Co-operatives are flourishing and expanding in their realm of activities at rates of growth which exceed national averages. Their outward signs of prosperity are fully backed up by real financial success. No case has been made out to show that co-operatives are a superior form of business or more efficient than other businesses. Alternately there is conclusive evidence to show that the extraordinary growth of co-operatives is due not to their efficiency but to the financial advantages which are accruing to them under present tax arrangements.

It has been clearly established that co-operatives have personalities distinct from those of their members; they are organized for the gain of their members; they earn



1 income and allocate their profits to owner-patrons. The
2 return to any one member is not simply a repayment of the
3 overcharge made to that particular member, it represents
4 the result of and the profit on all the co-operative
5 trading ventures. The co-operative member just like an
6 investor in an ordinary company, participates in the
7 trading fortunes of his co-operative.

8 We suggest that these are valid reasons for
9 requiring co-operative organizations and their members to
10 shoulder their share of the tax load and we add that tax
11 equality does not imply disapproval of the co-operative
12 idea.

13 In consideration of the relevant importance of
14 the corporate taxation contributions to the Federal
15 Treasury it is the view of the Retail Merchants Association
16 that the only practical solution to the Co-operative -
17 ordinary business tax controversy is tax legislation
18 amended to impose a fair rate of tax on co-operative
19 profits.

20 B.

RECOMMENDATIONS

21
22 We therefore submit the following recommendations: -

- 23 1) The repeal of Section 73 (1) of the Income
24 Tax Act to remove the discriminatory three-year
25 tax exemption for new co-operatives.
 - 26 2) The amendment of Section 75 to disallow the
27 deduction of patronage dividends in the calcula-
28 tion of the net income of either co-operatives
29 or ordinary corporations.
- 30



1 3) The provision for tax treatment of
2 patronage dividends in the hands of recipients
3 similar to that imposed on corporation dividends
4 in the hands of shareholders, granting at the
5 same time, equal tax credits or allowances
6 which may prevail.

7 We believe these recommendations to be con-
8 sistent with the principles of justice and equality.
9 They offer a solution to the co-operative taxation
10 problem and would have the effect of placing co-operatives
11 and their members on an equal footing with proprietary
12 businesses and their stockholders.

13
14 ALL OF WHICH IS RESPECTFULLY SUBMITTED.

15
16 RETAIL MERCHANTS ASSOCIATION OF CANADA
17 (ONTARIO) INC.

18 JOHN J. GORMAN - PRESIDENT
19
20
21
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SECTION VII

TABLES

Table

Estimated Retail Trade
by Provinces and Kinds of Business
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through Co-operatives in Canada by Provinces
For the Crop Year Ended July 31, 1961

X



TABLE I
ESTIMATED RETAIL TRADE BY PROVINCES AND KINDS OF BUSINESS
January to December 1962

Kind of Business	Canada	Atl. Prov.	Quebec	Ontario	Manitoba	Sask.	Alta.	B.C.
-- millions of dollars --								
Grocery and combination	3,634	351	1,364	1,399	151	136	263	323
Other food and beverage	1,137	107	369	533	39	41	72	143
General	636	153	119	121	56	98	72	68
Department	1,556	110	385	522	133	68	171	264
Variety	380	45	134	165	10	13	22	32
Motor Vehicle	2,793	255	645	1,214	120	193	256	310
Garage and filling station	1,179	99	284	481	44	72	94	134
Men's clothing	275	15	87	103	7	11	23	39
Family clothing	251	34	80	67	11	14	13	23
Women's clothing	284	12	57	123	7	3	23	32
Shoe	172	11	53	76	4	3	10	16
Hardware	339	21	85	105	20	37	44	35
Lumber and building material	456	21	84	147	46	44	76	38
Furniture, appliance and radio	563	41	195	235	24	18	41	41
Restaurant	569	31	152	232	22	32	46	60
Fuel	334	15	102	173	10	4	2	28
Drug	426	33	98	177	23	18	32	47
Jewellery	138	9	31	62	5	7	3	15
All other	2,046	135	434	846	119	142	181	199
TOTALS	17,357	1,486	4,368	9,550	959	958	1,452	1,784
				(1) 37,32				

Note: Totals may not balance due to rounding.
Source: Dominion Bureau of Statistics - Retail Trade, December 1962, Vol. 34, No. 11.
(1) Calculated by R.H.A.

(Published by R.H.A. of Canada Inc)

TABLE II
ESTIMATED RETAIL TRADE - CHAIN AND INDEPENDENT - BY KINDS OF BUSINESS - CANADA - ONTARIO

Kind of business	Canada			Ontario		
	All stores	Chain	Inde- pendent	All stores	Chain	Inde- pendent
			- thousands of dollars -			- thousands of dollars -
Grocery and combination	3,571,172	1,651,658	1,919,513	1,374,741	828,897	545,844
Other food and beverage	1,235,027	663,644	571,383	505,480	312,980	192,500
General	655,095	47,655	607,440	119,038	(1)	(1)
Department	1,492,896	-	1,492,896	509,325	-	509,325
Variety	368,338	316,000	52,338	159,854	137,262	22,593
Motor Vehicle	2,518,950	22,779	2,496,171	913,340	-	913,340
Garage and filling station	1,152,626	7,570	1,145,056	475,450	1,605	473,846
Men's clothing	259,998	29,191	230,806	98,256	19,082	79,175
Family clothing	242,233	70,672	171,561	66,068	13,843	52,225
Women's clothing	276,394	95,497	190,897	116,776	38,507	78,169
Shoe	167,116	77,510	89,606	73,957	38,384	35,573
Hardware	328,136	51,329	276,807	104,450	8,743	95,708
Lumber and building material	433,324	93,593	339,732	142,999	18,571	124,429
Furniture, appliance and Radio	556,334	113,921	442,412	212,274	43,256	169,018
Restaurant	557,039	41,189	515,850	228,142	15,315	212,827
Fuel	323,348	6,494	316,854	168,791	(1)	(1)
Drug	418,488	56,464	362,024	176,180	22,970	153,210
Jewellery	136,048	49,187	86,862	61,805	22,230	39,574
Other	1,964,040	184,887	1,779,153	829,837	77,042	752,794
TOTALS	16,663,602	3,569,240	13,094,362	6,337,334	1,605,468	4,731,866
		(2) 21.4%	(2) 78.6%		(2) 25.3%	(2) 74.7%

Sources: Dominion Bureau of Statistics - Retail Trade - December, 1961.

(1) Indicate figures withheld to avoid disclosing individual operations, but are included in the totals.

(2) Calculated by R.M.A.

(Published by R.M.A. Inc.)



TABLE III
NUMBER OF RETAIL STORES AND EMPLOYMENT IN RETAILING

	1931 (1)	1941	1951
Number of Retail Stores	124,608	136,990	153,034
Employment Full-Time	238,683	297,047	Average Minimum 454,794 Average Maximum 603,691

Source: Canada Year Book, 1961, Statistical Summary of The Progress of Canada, Page 1254

(1) Census Figures for 1930

(Published by R.M.A. Inc.)

TABLE IV
RETAIL TRADE - CORPORATION STATISTICS - 1960 TAXATION YEAR

(All Money Figures in \$ million)

Industrial Class	Companies Reporting a Profit				Loss Companies	
	Number of Companies	Current Year Profit	Prior Year Loss Deducted	Net Taxable Income	Total Tax Declared	Number of Companies
Food Stores	877	43.7	.2	43.4	17.0	504
Department and Variety Stores	201	81.4	.1	81.3	36.1	23
Other General Merchandise	380	3.3	.1	3.3	.8	134
Auto Access.,Tires,Service Stations	852	11.1	.1	11.0	3.0	451
Motor Vehicle Dealers	1,821	34.5	1.3	33.1	10.0	1,039
Motor Vehicle Repairs	472	2.8	.1	2.7	.5	242
Shoe Stores	304	5.4	.1	5.3	1.6	81
Clothing and Dry Goods	1,422	15.2	.8	14.3	3.7	711
Hardware	680	3.8	.2	3.5	.8	330
Furniture and Appliances	1,754	15.2	.9	14.3	4.1	606
Drug Stores	780	8.1	.1	8.0	2.0	181
Fuel Dealers	324	5.3	.2	5.1	1.5	161
Jewellery Stores	300	4.5	.1	4.4	1.5	102
Other Retail Trade	1,412	15.5	1.1	14.5	4.2	855
TOTAL	10,819	249.8	5.4	244.4	86.8	5,420
						37.7

Source: 1962 Taxation Statistics p. 113, 114.

(Published by R.M.A. Inc.)



TABLE V
RETAIL TRADE - BUSINESS PROPRIETORS - 1960 TAXATION YEAR

(All money figures in \$ thousands)

	BUSINESS PROPRIETORS		
	Number	Income \$	Tax \$
Taxable			
Under - \$ 2,000	4,870	7,517	295
\$ 2,000 - \$ 3,999	12,274	31,424	1,069
3,000 - 3,999	16,244	56,424	2,548
4,000 - 4,999	13,432	59,883	3,765
5,000 - 5,999	8,789	47,900	4,000
6,000 - 6,999	6,065	39,216	3,796
7,000 - 7,999	4,324	32,324	3,744
8,000 - 8,999	3,157	26,640	3,309
9,000 - 9,999	2,018	19,138	2,519
10,000 - 14,999	4,444	51,379	8,641
15,000 - 19,999	1,226	22,601	4,827
20,000 - 24,999	453	9,595	2,496
25,000 and over	377	13,702	4,412
TOTAL	77,773	419,842	45,423
Non-taxable			
Under - \$ 1,000	10,993	1,811	
\$ 1,000 - \$ 1,999	11,904	17,984	
2,000 - 2,999	13,571	5,294	
3,000 and over	4,375	14,000	
TOTAL	40,843	61,189	

Source: 1962 Taxation Statistics, p. 44

(Published by R.M.A. Inc.)



TABLE VI
Co-operative Associations Reporting by Provinces for the
Crop Year Ended July 31, 1961

Province	Assoc- iations	Share- holders or members	Volume of business					Service	Fishermen's	Grand volume of business including other revenue
			Sales of farm products and farm supplies		Sub-total					
			Marketing and purchasing	Other ^{c/}	- thousand dollars -					
British Columbia	129	105,635	87,811	2,226	90,037	3,439	6,041	100,369		
Alberta	635	284,607	203,891	240	204,131	4,691	43	210,412		
Saskatchewan	610	409,489	372,512	137	372,649	774	1,303	380,905		
Manitoba	124	148,335	134,293	109	134,402	289	-	137,132		
Ontario	354	247,650	246,926	1,014	247,940	4,222	1,482	258,191		
Quebec	720	158,386	210,026	510	210,536	7,777	4,099	224,941		
New Brunswick	87	20,954	18,965	60	19,025	133	1,707	21,136		
Nova Scotia a/	117	29,503	24,761	167	24,928	156	2,712	29,231		
Prince Edward Island	26	6,760	8,264	-	8,264	-	1,466	9,817		
Un-fulfilled	60	9,072	5,321	-	5,321	-	324	5,906		
Interprovincial	6	116,375 b/	93,002	-	93,002	-	-	93,463		
Total 1961	2,868	1,626,766	1,405,772	4,463	1,410,235	21,481	19,177	1,470,492		
Total 1960 d/	2,876	1,608,420	-	-	1,338,077	20,548	18,616	1,398,469		

a/ Includes one Interprovincial Service Association.

b/ Associations and individuals.

c/ Sales of farm products and supplies by Service and Fishermen's Associations.

d/ Revised.

Source:- Canada Department of Agriculture "Co-operation in Canada 1961", Page 2.



Table VI

GROWTH IN MARKETING AND PURCHASING ACTIVITIES REPORTED BY
CO-OPERATIVES IN CANADA, 1932-1961

Crop Year Ended	Associations Reporting - number -	Marketing - thousand dollars -	Purchasing - thousand dollars -	Total Business including Other Revenue
1932	795	134,611	10,665	145,333
1937	1,024	157,931	16,363	173,927
1938	1,217	134,493	20,391	155,483
1939	1,332	180,747	20,400	201,637
1940	1,151	214,293	21,129	236,322
1941	1,395	215,330	24,395	241,158
1942	1,722	214,762	42,387	257,190
1943	1,650	295,499	55,689	351,785
1944	1,731	459,798	65,538	527,855
1945	1,524	500,481	81,380	585,657
1946	1,554	454,264	95,693	554,379
1947	2,095	573,636	137,671	712,533
1948	2,146	616,347	157,874	783,285
1949	2,465	683,639	161,804	845,232
1950	2,348	764,264	276,282	1,040,546
1951	2,194	894,113	320,995	1,215,108
1952	2,291	874,679	349,629	1,224,307
1953	2,386	735,783	334,383	1,070,166
1954	1,949	794,347	238,446	1,032,793
1955	2,341	823,569	284,723	1,108,292
1956	2,022	898,168	296,743	1,194,911
1957	2,002	817,631	296,743	1,114,374
1958	1,982	963,330	332,943	1,296,273
1959	1,934	972,333	365,744	1,338,077
1960	1,906	1,017,750	389,022	1,406,772
1961				

a/ Revised

Source: Canada Department of Agriculture "Co-operation in Canada 1961" p. 4

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TABLE VIII
CO-OPERATIVE SHARE OF SALES OF FARM PRODUCTS, CANADA, 1960

Products	Total Canadian sales of farm products - thousand dollars	Co-operative marketing	
		Value	Share of total - per cent -
Dairy Products	790,000	219,533	27.8
Fruits and vegetables	185,520	40,950	22.1
Grain and seed	681,187	377,720	55.5
Livestock and livestock products	879,110	276,792	31.5
Eggs and poultry	258,142	42,026	16.3
Other	106,300	15,312	14.4
Total	2,900,259	972,333	33.3

Factory values were used because they are comparable with values reported by co-operatives.

Source: Co-operatives in Canada, Publication 1119, April, 1962, Page 30.

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TABLE IX
COMPARATIVE SUMMARY OF CO-OPERATIVE ASSETS,
MARKETING AND MERCHANDISING SALES IN CANADA
1957 and 1961

	TOTAL ASSETS (\$000)	SALES OF FARM PRODUCTS (\$000)	SALES OF SUPPLIES (\$000)
1957	481,912	817,601	283,730
1961	617,308	1,017,750	392,117
Percentage Increase (1)	28%	23%	38%

Sources: Canada Department of Agriculture
"Co-operation in Canada 1957 and 1961"

(1) Calculated by R.M.A. Percentage figures rounded

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TABLE X
VALUE OF SUPPLIES AND MERCHANDISE SOLD THROUGH CO-OPERATIVES IN CANADA
BY PROVINCES, FOR THE YEAR ENDED JULY 31, 1961

(All money figures in \$ thousand)

	Type of Ass'n.	Food Products	Clothing and Home Furnishings	Hardware	Petroleum Products and Auto Accessories	Feed, Fertilizer and Spray Materials	Machinery and Equipment	Coal, Lumber and Building Materials	Miscellaneous	TOTAL
British Columbia	F.&M. c)	10,360	2,097	2,104	1,865	11,383	43	390	233	28,469
	Others	1,404	236	354	191	1	25	10	5	3,086
Alberta	F.&M. c)	11,300	1,873	2,265	12,721	2,391	1,056	2,892	275	34,823
	Others	70	-	-	-	38	1	-	52	708
Saskatchewan	F.&M. c)	26,213	3,600	8,316	39,156	2,241	1,331	9,311	2,512	82,750
	Others	137	-	-	-	-	-	-	-	137
Manitoba	F.&M. c)	8,348	912	2,476	10,034	2,234	562	3,823	761	29,120
	Others	106	-	-	-	-	-	-	3	109
Ontario	F.&M. c)	11,345	668	4,863	9,970	39,355	1,407	3,518	3,704	73,650
	Others	31	-	-	311	236	31	-	97	666
Quebec	F.&M. c)	20,239	1,203	4,317	4,682	50,784	4,719	1,734	2,438	90,350
	Others	-	-	1	195	-	-	304	10	510
New Brunswick	F.&M. c)	3,427	495	616	866	3,281	68	526	303	9,551
	Others	44	2	4	6	4	-	-	-	60
Nova Scotia	F.&M. c)	7,340	597	773	525	5,734	240	419	215	15,643
	Others	125	1	-	-	9	-	-	-	135
Pr. Edward Island	F.&M.	3,423	68	366	142	955	-	38	23	4,955
Prince of Wales	F.&M.	3,960	865	-	55	180	11	95	105	5,371
Inter-provincial	F.&M.	-	27	-	-	4,371	6,486	1,208	1,428	13,420
TOTAL 1961		107,966	12,664	26,415	70,689	122,442	15,950	24,258	11,754	392,117
TOTAL 1962 b)		102,368	12,229	25,660	63,957	116,406	12,724	23,705	8,695	365,744

a) Mainly smallwares, electrical equipment and supplies.

b) Revised

c) Service and Fishermen Associations.

Source: Canada Department of Agriculture "Co-operation in Canada 1961" p. 9

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